

---

---

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: **March 31, 2007**

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.)

**211 Carnegie Center  
Princeton, New Jersey**

(Address of principal executive offices)

**08540**  
(Zip Code)

**(609) 524-4500**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12 b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-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 April 27, 2007, there were 121,158,437 shares of common stock outstanding, par value \$0.01 per share.

---

---

## TABLE OF CONTENTS

### Index

<a href="#"><u>CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION</u></a>	3
<a href="#"><u>GLOSSARY OF TERMS</u></a>	4
<a href="#"><u>Item 1 — Condensed Consolidated Financial Statements and Notes</u></a>	6
<a href="#"><u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS</u></a>	6
<a href="#"><u>CONDENSED CONSOLIDATED BALANCE SHEETS</u></a>	7
<a href="#"><u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u></a>	8
<a href="#"><u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u></a>	9
<a href="#"><u>Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	32
<a href="#"><u>Item 3 — Quantitative and Qualitative Disclosures About Market Risk</u></a>	52
<a href="#"><u>Item 4 — Controls and Procedures</u></a>	55
<a href="#"><u>PART II — OTHER INFORMATION</u></a>	56
<a href="#"><u>Item 1 — Legal Proceedings</u></a>	56
<a href="#"><u>Item 1A — Risk Factors</u></a>	56
<a href="#"><u>Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	56
<a href="#"><u>Item 3 — Defaults Upon Senior Securities</u></a>	56
<a href="#"><u>Item 4 — Submission of Matters to a Vote of Security Holders</u></a>	56
<a href="#"><u>Item 5 — Other Information</u></a>	56
<a href="#"><u>Item 6 — Exhibits</u></a>	57
<a href="#"><u>EX-10.1: AMENDED AND RESTATED LONG TERM INCENTIVE PLAN</u></a>	
<a href="#"><u>EX-10.2: EXECUTIVE AND KEY MANAGEMENT CHANGE-IN-CONTROL AND GENERAL SEVERANCE AGREEMENT</u></a>	
<a href="#"><u>EX-31.1: CERTIFICATION</u></a>	
<a href="#"><u>EX-31.2: CERTIFICATION</u></a>	
<a href="#"><u>EX-31.3: CERTIFICATION</u></a>	
<a href="#"><u>EX-32: CERTIFICATION</u></a>	

### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words “believes”, “projects”, “anticipates”, “plans”, “expects”, “intends”, “estimates” 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 NRG’s actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, risks and uncertainties include the factors described under Risks Related to NRG in Part II, Item 1A, of the Company’s Annual Report on Form 10-K and the following:

- General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;
- Hazards customary to the power production industry and power generation operations such as fuel and electricity price volatility, unusual weather conditions, catastrophic weather-related or other damage to facilities, unscheduled generation outages, maintenance or repairs, unanticipated changes to fuel supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmission or gas pipeline system constraints and the possibility that NRG may not have adequate insurance to cover losses as a result of such hazards;
- The effectiveness of NRG’s risk management policies and procedures, and the ability of NRG’s counterparties to satisfy their financial commitments;
- Counterparties’ collateral demands and other factors affecting NRG’s liquidity position and financial condition;
- NRG’s ability to operate its businesses efficiently, manage capital expenditures and costs tightly (including general and administrative expenses), and generate earnings and cash flows from its asset-based businesses in relation to its debt and other obligations;
- NRG’s potential inability to enter into contracts to sell power and procure fuel on acceptable terms and prices;
- The liquidity and competitiveness of wholesale markets for energy commodities;
- Government regulation, including compliance with regulatory requirements and changes in market rules, rates, tariffs and environmental laws;
- Price mitigation strategies and other market structures employed by independent system operators, or ISOs, or regional transmission organizations, or RTOs, that result in a failure to adequately compensate NRG’s generation units for all of its costs;
- NRG’s ability to borrow additional funds and access capital markets, as well as NRG’s substantial indebtedness and the possibility that NRG may incur additional indebtedness going forward;
- Operating and financial restrictions placed on NRG contained in the indentures governing NRG’s outstanding notes in NRG’s senior credit facility and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally; and
- NRG’s ability to implement its *RepoweringNRG* strategy of developing and building new power generation facilities, including new nuclear units and IGCC units.
- NRG’s ability to consummate or achieve the expected benefits of the Comprehensive Capital Allocation Plan as described in this quarterly report.

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

## GLOSSARY OF TERMS

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

Acquisition	February 2, 2006 acquisition of Texas Genco LLC, now referred to as the Company's Texas region
ARO	Asset Retirement Obligation
BACT	Best Available Control Technology
Baseload capacity	Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year
BTA	Best Technology Available
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CAMR	Clean Air Mercury Rule
Capital Allocation Program	Share repurchase program entered into in August 2006
Capacity factor	The ratio of the actual net electricity generated to the energy that could have been generated at continuous full-power operation during the year
Comprehensive Capital Allocation Plan	A comprehensive plan to support and facilitate the Company's capital allocation strategy that includes a holding company structure to enable the distribution of cash dividend on the Company's common stock, the pay down of debt, a stock split, and the Capital Allocation Program
CDWR	California Department of Water Resources
CL&P	Connecticut Light & Power
CO <sub>2</sub>	Carbon dioxide
CPUC	California Public Utilities Commission
DNREC	Delaware Department of Natural Resources and Environmental Control
EFOR	Equivalent Forced Outage Rates — considers the equivalent impact that forced de-ratings have in addition to full forced outages
EITF	Emerging Issues Task Force
EITF 02-3	EITF Issue No. 02-3, " <i>Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities</i> "
EPC	Engineering, Procurement and Construction
ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas
FASB	Financial Accounting Standards Board, the designated organization for establishing standards for financial accounting and reporting
FCM	Forward Capacity Market
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
GHG	Greenhouse Gases
Hedge Reset	Net settlement of long-term power contracts and gas swaps by negotiating prices to current market completed in November 2006
IGCC	Integrated Gasification Combined Cycle
ISO	Independent System Operator, also referred to as Regional Transmission Organization, or RTO
ISO-NE	ISO New England, Inc.
ITISA	Itiquira Energetica S.A.
kW	Kilowatts
KWh	Kilowatt-hours
Letter of Credit Facility	NRG's \$1.5 billion senior secured synthetic letter of credit facility which matures on February 1, 2013
LFMR	Locational Forward Reserve Market
LIBOR	London Inter-Bank Offered Rate
Merit Order	A term used for the ranking of power stations in terms of increasing order of fuel costs.
MMBtu	Million British Thermal Units
MW	Megawatts
MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
NEPOOL	New England Power Pool
New York Rest of State	New York State excluding New York City

**GLOSSARY OF TERMS — cont'd**

NiMo	Niagara Mohawk Power Corporation
NO <sub>x</sub>	Nitrogen oxide
NOL	Net Operating Loss
NOV	Notice of Violation
NPNS	Normal Purchase Normal Sale
NSR	New Source Review
NYISO	New York Independent System Operator
OCI	Other Comprehensive Income
Phase II 316(b) Rule	A section of the Clean Water Act regulating cooling water intake structures
PJM	PJM Interconnection, LLC
PJM Market	The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia
PMI	NRG Power Marketing, Inc., a wholly-owned subsidiary of NRG which procures transportation and fuel for the Company's generation facilities, sells the power from these facilities, and manages all commodity trading and hedging for NRG
Powder River Basin, or PRB, Coal	Coal produced in the northeastern Wyoming and southeastern Montana, which has low sulfur content
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUSH	Peaking Unit Safe Harbor
<i>Repowering NRG</i>	Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency.
Revolving Credit Facility	NRG's \$1 billion senior secured credit facility which matures on February 2, 2011
RMR	Reliability Must-Run
RTO	Regional Transmission Organization, also referred to as an ISO
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SEC	United States Securities and Exchange Commission
Senior Credit Facility	NRG's senior secured facility, which is comprised of a \$3.1 billion Term B loan facility which matures on February 1, 2013, its \$1.5 billion Letter of Credit Facility, and its \$1 billion Revolving Credit Facility
SERC	Southeastern Electric Reliability Council/ Entergy
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 71	SFAS No. 71 " <i>Accounting for the Effects of Certain Types of Regulation</i> "
SFAS 109	SFAS No. 109, " <i>Accounting for Income Taxes</i> "
SFAS 123	SFAS No. 123, " <i>Accounting for Stock-Based Compensation</i> "
SFAS 123R	SFAS No. 123 (revised 2004), " <i>Share-Based Payment</i> "
SFAS 133	SFAS No. 133, " <i>Accounting for Derivative Instruments and Hedging Activities</i> "
SFAS 142	SFAS No. 142, " <i>Goodwill and Other Intangible Assets</i> "
SFAS 144	SFAS No. 144, " <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> "
SFAS 158	SFAS No. 158, " <i>Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)</i> "
SO <sub>2</sub>	Sulfur dioxide
SOP	Statement of Position issued by the American Institute of Certified Public Accountants
SOP 90-7	Statement of Position 90-7 " <i>Financial Reporting by Entities in Reorganization Under the Bankruptcy Code</i> "
STP	South Texas Project — Nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
Texas Genco	Texas Genco LLC, now referred to as the Company's Texas region
Uprate	A sustainable increase in the electrical rating of a generating facility
US	United States of America
USEPA	United States Environmental Protection Agency
U.S. GAAP	Accounting principles generally accepted in the United States
VAR	Value at Risk
WCP	West Coast Power (Generation) Holdings, LLC

## PART I — FINANCIAL INFORMATION

## ITEM 1 — CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

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

(In millions except per share amounts)

Three months ended March 31,	2007	2006
<b>Operating Revenues</b>		
Total operating revenues	\$ 1,310	\$ 1,043
<b>Operating Costs and Expenses</b>		
Cost of operations	784	659
Depreciation and amortization	161	118
General and administrative	86	57
Development costs	23	—
Total operating costs and expenses	1,054	834
Gain on sale of assets	17	—
<b>Operating Income</b>	273	209
<b>Other Income/(Expense)</b>		
Equity in earnings of unconsolidated affiliates	13	21
Write down of equity method investments	—	(3)
Other income, net	16	80
Refinancing expenses	—	(178)
Interest expense	(181)	(115)
Total other expenses	(152)	(195)
<b>Income From Continuing Operations Before Income Taxes</b>	121	14
Income tax expense/(benefit)	56	(1)
<b>Income From Continuing Operations</b>	65	15
Income on Discontinued Operations, net of Income Taxes	—	11
<b>Net Income</b>	\$ 65	\$ 26
Preference stock dividends	14	10
<b>Income Available for Common Stockholders</b>	\$ 51	\$ 16
Weighted Average Number of Common Shares Outstanding — Basic	122	117
Income From Continuing Operations per Weighted Average Common Share — Basic	\$ 0.42	\$ 0.04
Income From Discontinued Operations per Weighted Average Common Share — Basic	—	0.09
<b>Net Income per Weighted Average Common Share — Basic</b>	\$ 0.42	\$ 0.13
Weighted Average Number of Common Shares Outstanding — Diluted	135	119
Income From Continuing Operations per Weighted Average Common Share — Diluted	\$ 0.41	\$ 0.04
Income From Discontinued Operations per Weighted Average Common Share — Diluted	—	0.09
<b>Net Income per Weighted Average Common Share — Diluted</b>	\$ 0.41	\$ 0.13

See notes to condensed consolidated financial statements.

**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except shares and par value)	March 31, 2007 (unaudited)	December 31, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 655	\$ 795
Restricted cash	49	44
Accounts receivable, less allowance for doubtful accounts of \$1 and \$1	409	372
Inventory	400	421
Derivative instruments valuation	854	1,230
Deferred income taxes	43	—
Prepayments and other current assets	259	221
Total current assets	2,669	3,083
<b>Property, plant and equipment, net of accumulated depreciation of \$1,159 and \$984</b>	<b>11,521</b>	<b>11,600</b>
<b>Other Assets</b>		
Equity investments in affiliates	361	344
Notes receivable and capital lease, less current portion	476	479
Goodwill	1,787	1,789
Intangible assets, net of accumulated amortization of \$292 and \$259	958	981
Nuclear decommissioning trust fund	357	352
Derivative instruments valuation	187	439
Deferred income taxes	27	27
Other non-current assets	256	262
Intangible assets held-for-sale	112	79
Total other assets	4,521	4,752
<b>Total Assets</b>	<b>\$ 18,711</b>	<b>\$ 19,435</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt and capital leases	\$ 129	\$ 130
Accounts payable	295	332
Derivative instruments valuation	824	964
Deferred income taxes	—	164
Accrued expenses and other current liabilities	320	442
Total current liabilities	1,568	2,032
<b>Other Liabilities</b>		
Long-term debt and capital leases	8,637	8,647
Nuclear decommissioning reserve	280	289
Nuclear decommissioning trust liability	335	324
Deferred income taxes	623	554
Derivative instruments valuation	418	351
Out-of-market contracts	839	897
Other non-current liabilities	437	435
Total non-current liabilities	11,569	11,497
<b>Total Liabilities</b>	<b>13,137</b>	<b>13,529</b>
Minority Interest	1	1
3.625% Convertible perpetual preferred stock (at liquidation value, net of issuance costs)	247	247
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock (at liquidation value, net of issuance costs)	892	892
Common Stock	1	1
Additional paid-in capital	4,469	4,476
Retained earnings	790	739
Less treasury stock, at cost — 16,300,581 and 14,800,581 shares	(835)	(732)
Accumulated other comprehensive income	9	282
<b>Total Stockholders' Equity</b>	<b>5,326</b>	<b>5,658</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 18,711</b>	<b>\$ 19,435</b>

See notes to condensed consolidated financial statements.

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

(In millions)	2007	2006
<b>Three months ended March 31,</b>		
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 65	\$ 26
Adjustments to reconcile net income to net cash provided by operating activities		
Distributions less than equity in earnings of unconsolidated affiliates	(10)	(12)
Depreciation and amortization of nuclear fuel	174	125
Amortization and write-off of financing costs and debt discount/premiums	9	57
Amortization of intangibles and out-of-market contracts	(29)	9
Changes in deferred income taxes	47	46
Changes in nuclear decommissioning trust liability	9	(3)
Changes in derivatives	90	(21)
Changes in collateral deposits supporting energy risk management activities	(120)	230
Gain on sale of assets	(17)	—
Gain on legal settlement	—	(67)
Gain on sale of discontinued operations	—	(10)
Gain on sale of emission allowances	(5)	(59)
Amortization of unearned equity compensation	7	3
Write down of equity method investments	—	3
Cash provided/(used) by changes in other working capital, net of acquisition and disposition affects	(114)	15
<b>Net Cash Provided by Operating Activities</b>	<b>106</b>	<b>342</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of Texas Genco LLC, net of cash acquired	—	(4,263)
Acquisition of WCP, net of cash acquired	—	(25)
Capital expenditures	(107)	(35)
Increase in restricted cash, net	(5)	(3)
Decrease in notes receivable	9	8
Purchases of emission allowances	(61)	(15)
Proceeds from sale of emission allowances	32	68
Investments in nuclear decommissioning trust fund securities	(68)	(42)
Proceeds from sales of nuclear decommissioning trust fund securities	59	45
Proceeds from sale of assets	29	—
Proceeds from sale of investments	—	45
Proceeds from sale of discontinued operations	—	15
<b>Net Cash Used by Investing Activities</b>	<b>(112)</b>	<b>(4,202)</b>
<b>Cash Flows from Financing Activities</b>		
Payment of dividends to preferred stockholders	(14)	(10)
Payment of financing element of acquired derivatives	—	(29)
Payment for treasury stock	(103)	—
Funded letter of credit	—	350
Proceeds from issuance of common stock, net of issuance costs	—	986
Proceeds from issuance of preferred shares, net of issuance costs	—	486
Proceeds from issuance of long-term debt	—	7,175
Payment of deferred debt issuance costs	—	(164)
Payments for short and long-term debt	(19)	(4,623)
<b>Net Cash Provided/(Used) by Financing Activities</b>	<b>(136)</b>	<b>4,171</b>
Change in Cash from Discontinued Operations	—	(17)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2	1
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>(140)</b>	<b>295</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>795</b>	<b>493</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 655</b>	<b>\$ 788</b>

See notes to condensed consolidated financial statements.



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

**Note 1 — Basis of Presentation**

NRG Energy, Inc., or NRG or the Company, is a wholesale power generation company with a significant presence in major competitive power markets in the United States. NRG is primarily engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the trading of energy, capacity and related products in the United States and internationally.

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 notes required by generally accepted accounting principles for complete financial statements. The accounting policies NRG follows are set forth in Note 2 to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly the Company's consolidated financial position as of March 31, 2007, and the results of operations and cash flows for the three months ended March 31, 2007 and 2006. Certain prior-year amounts have been reclassified for comparative purposes.

**Use of Estimates**

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during the reporting period. Actual results could be different from these estimates.

**Recent Accounting Developments**

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, or FIN 48, which applies to all tax positions related to income taxes subject to SFAS 109. FIN 48 requires a new evaluation process for all tax positions taken, recognizing tax benefits when it is more-likely-than-not that a tax position will be sustained upon examination by the authorities. The benefit from a position that has surpassed the more-likely-than-not threshold is the largest amount of benefit that is more than 50% likely to be realized upon settlement. Differences between the amounts recognized in the statement of financial position prior to the adoption of FIN 48 and the amounts reported after adoption are to be accounted for as an adjustment to the beginning balance of retained earnings. Subsequently, any such differences will be recorded as a charge to income tax expense. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. As of March 31, 2007, the Company had completed its evaluation of the impact of the January 1, 2007, adoption of FIN 48 and has determined that such adoption will not have a material impact on the Company's financial position, results of operations and cash flows.

**Note 2 — Comprehensive Income**

The following table summarizes the components of the Company's comprehensive income for the three months ended March 31, 2007 and 2006.

(In millions)	2007	2006
Three months ended March 31,		
Net income	\$ 65	\$ 26
Changes in derivative activity, net of tax	(283)	247
Foreign currency translation adjustment	10	3
Other comprehensive income, net of tax	(273)	250
Comprehensive income/(loss)	\$ (208)	\$ 276

## Table of Contents

The following table summarizes the changes in the Company's accumulated other comprehensive income for the three months ended March 31, 2007:

(In millions)	2007
As of March 31,	
Accumulated other comprehensive income as of December 31, 2006	\$ 282
Changes in derivative activity, net of tax	(283)
Foreign currency translation adjustments	10
Accumulated other comprehensive income as of March 31, 2007	\$ 9

### Note 3 — Business Acquisitions and Dispositions

#### Acquisition of Remaining 50% interest in WCP

On March 31, 2006, NRG completed purchase and sale agreements for projects co-owned with Dynegey, Inc. Under the agreements, NRG acquired Dynegey's 50% ownership interest in WCP (Generation) Holdings, LLC., or WCP, for \$205 million in cash and the assumption of a \$1 million liability, with NRG becoming the sole owner of WCP's 1,825 MW of generation capacity in Southern California. In addition, NRG sold to Dynegey the Company's 50% ownership interest in Rocky Road Power LLC, or Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. NRG sold Rocky Road for a fair value sale price of \$45 million, paying Dynegey a net purchase price of \$160 million at closing. Prior to the purchase, NRG had an existing investment in WCP accounted for as an equity method investment, or Original Investment.

The acquisition of the remaining 50% interest in WCP, or New Investment, was accounted for as a step acquisition since the Original Investment was transacted in a prior period. As a result, the value of the Original Investment and the purchase price of the New Investment were determined and allocated separately. The value of the Original Investment was based on the book value of approximately \$159 million as of the date of the acquisition of the New Investment.

The value of the New Investment was allocated based on the fair value of assets acquired and liabilities assumed as of March 31, 2006. The purchase price allocation reflected an excess of fair value of the net assets acquired over the purchase price of the New Investment, resulting in negative goodwill of approximately \$48 million. The negative goodwill was subsequently allocated as a reduction to the fair value of WCP's fixed assets.

The following summarizes the purchase price and allocation impact of the WCP acquisition as of March 31, 2006:

(in millions)	Original Investment	New Investment		Purchase Price Allocation	
		Fair Value before Negative Goodwill Allocation	Allocation of Negative Goodwill		Fair Value after Negative Goodwill Allocation
Current assets	\$ 149	\$ 153	\$ —	\$ 153	\$ 302
Property, plant and equipment	24	103	(38)	65	89
Intangible assets	2	26	(10)	16	18
Other non-current assets	—	9	—	9	9
Current liabilities	(13)	(18)	—	(18)	(31)
Non-current liabilities	(3)	(19)	—	(19)	(22)
Negative goodwill	—	(48)	48	—	—
Total Equity	\$ 159	\$ 206	\$ —	\$ 206	\$ 365

#### Other Business Events

*Red Bluff and Chowchilla* — On January 3, 2007, NRG completed the sale of the Company's Red Bluff and Chowchilla II power plants to an entity controlled by Wayzata Investment Partners LLC. These power plants, located in California, are fueled by natural gas, with generating capacity of 45 MW and 49 MW, respectively. The sale resulted in a pre-tax gain of approximately \$18 million.

### Note 4 — Discontinued Operations

NRG has classified material 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 the affected businesses have been

[Table of Contents](#)

accounted for as discontinued operations. Accordingly, prior periods have been recast to report the operations as discontinued. NRG classifies certain assets as held-for-sale when management has committed to selling certain long lived assets within the next year. This classification does not affect prior period operating results.

For the three months ended March 31, 2006, discontinued operations consisted of the results related to the Company's Audrain, Flinders and Resource Recovery operations. NRG had no assets classified as discontinued operations for the three months ended March 31, 2007.

Summarized results of operations of the Company's discontinued operations were as follows:

(In millions)	2007	2006
Three months ended March 31,		
Operating revenues	\$ —	\$ 68
Pre-tax income from operations of discontinued components	—	2
Income from discontinued operations, net of income taxes	\$ —	\$ 11

**Note 5 — Accounting for Derivative Instruments and Hedging Activities**

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, or SFAS 133, requires NRG to recognize all derivative instruments on the balance sheet as either assets or liabilities and to measure them at fair value each reporting period unless they qualify for a Normal Purchase Normal Sale, or NPNS, exception. If certain conditions are met, NRG may be able to designate certain derivatives as cash flow hedges and defer the effective portion of the change in fair value of the derivatives to OCI and subsequently recognize in earnings when the hedged transaction occurs. The ineffective portion of a cash flow hedge is immediately recognized in earnings.

**Accumulated Other Comprehensive Income**

The following table summarizes the effects of SFAS 133 on NRG's OCI balance attributable to hedged derivatives for the three months ended March 31, 2007, net of tax:

(In millions)	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at December 31, 2006	\$ 193	\$ 16	\$ 209
Realized from OCI during the period:			
— Due to realization of previously deferred amounts	(17)	—	(17)
Mark-to-market of hedge contracts	(259)	(7)	(266)
Accumulated OCI balance at March 31, 2007	\$ (83)	\$ 9	\$ (74)
Losses expected to be realized from OCI during the next 12 months	\$ 4	\$ —	\$ 4

The following table summarizes the effects of SFAS 133 on NRG's OCI balance attributable to hedged derivatives for the three months ended March 31, 2006, net of tax:

(In millions)	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at December 31, 2005	\$ (204)	\$ 8	\$ (196)
Realized from OCI during the period:			
— Due to realization of previously deferred amounts	20	(2)	18
Mark-to-market of hedge contracts	187	42	229
Accumulated OCI balance at March 31, 2006	\$ 3	\$ 48	\$ 51

As of March 31, 2007, the net balance in OCI relating to SFAS 133 was an unrecognized loss of approximately \$74 million, which is net of \$50 million in income taxes. NRG expects \$4 million of net deferred losses on derivative instruments accumulated in OCI to be recognized in earnings during the next twelve months.

**Statement of Operations**

In accordance with SFAS 133, unrealized gains and losses associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives and ineffectiveness of hedge derivatives are reflected in current period earnings.

[Table of Contents](#)

The following tables summarizes the pre-tax effects of non-hedge derivatives, derivatives that do not qualify as hedges, and ineffectiveness of hedge derivatives on NRG's statement of operations for the three months ended March 31, 2007:

(In millions)	Energy Commodities	Interest Rate	Total
Operating Revenues	\$ (90)	\$ —	\$ (90)
Equity in earnings of unconsolidated subsidiaries	—	—	—
Cost of operations	—	—	—
Interest Expense	—	—	—
<b>Total statement of operations impact before tax</b>	<b>\$ (90)</b>	<b>\$ —</b>	<b>\$ (90)</b>

The following tables summarizes the pre-tax effects of non-hedge derivatives, derivatives that do not qualify as hedges, and ineffectiveness of hedge derivatives on NRG's statement of operations for the three months ended March 31, 2006:

(In millions)	Energy Commodities	Interest Rate	Total
Operating Revenues	\$ 49	\$ —	\$ 49
Equity in earnings of unconsolidated subsidiaries	—	—	—
Cost of operations	—	—	—
Interest expense	—	3	3
<b>Total statement of operations impact before tax</b>	<b>\$ 49</b>	<b>\$ (3)</b>	<b>\$ 46</b>

For the three months ended March 31, 2007, the unrealized loss associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives of \$90 million is comprised of \$79 million of fair value decreases in forward sales of electricity and fuel, a \$44 million gain due to the ineffectiveness associated with financial forward contracted electric and gas sales, \$70 million from the reversal of mark-to-market gains which ultimately settled as financial revenues of which \$57 million was related to economic hedges and \$13 million was related to trading activity. In addition, the Company recorded \$15 million of gains associated with open positions also related to trading activity.

For the three months ended March 31, 2006, the unrealized gain associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives of \$49 million is comprised of \$37 million of fair value increases in forward sales of electricity and fuel, an \$8 million loss due to the ineffectiveness associated with financial forward contracted electric and gas sales, \$21 million from the reversal of mark-to-market losses which ultimately settled as financial revenues, of which \$45 million was related to losses on economic hedges and \$24 million was related to gains on trading activity. In addition, the Company recorded \$1 million of losses associated with open positions also related to trading activity. NRG's pre-tax earnings were also affected by a \$3 million loss due to ineffectiveness associated with the Company's fixed-to-floating interest rate swap designated as a hedge of fair value changes in the Senior Notes.

**Note 6 — Changes in Capital Structure**

The following table reflects the changes in NRG's common stock issued and outstanding during the three months ended March 31, 2007 and 2006:

	Authorized	Issued	Treasury	Outstanding
Balance as of December 31, 2006	500,000,000	137,124,132	(14,800,581)	122,323,551
Capital Allocation Program — Phase II during the first quarter 2007	—	—	(1,500,000)	(1,500,000)
Shares issued from LTIP through March 31, 2007	—	299,457	—	299,457
<b>Balance as of March 31, 2007</b>	<b>500,000,000</b>	<b>137,423,589</b>	<b>(16,300,581)</b>	<b>121,123,008</b>
Balance as of December 31, 2005	500,000,000	100,048,676	(19,346,788)	80,701,888
Shares issued January 2006	—	20,855,057	—	20,855,057
Acquisition of Texas Genco LLC	—	16,059,504	19,346,788	35,406,292
Shares issued from LTIP through March 31, 2006	—	12,038	—	12,038
<b>Balance as of March 31, 2006</b>	<b>500,000,000</b>	<b>136,975,275</b>	<b>—</b>	<b>136,975,275</b>

**Common Stock**

NRG's authorized common stock consists of 500 million shares of NRG stock. Common stock issued as of March 31, 2007 and 2006 was 137,423,589 and 136,975,275 shares, respectively.

**Treasury Stock**

In 2006, NRG initiated a Capital Allocation Program executed in two phases. Phase I was completed in the fourth quarter 2006, with the repurchase of 10,587,700 shares of the Company's common stock for approximately \$500 million. Phase II is also a \$500 million share buyback program that began in the fourth quarter 2006 with the repurchase of 4,212,881 shares of NRG common stock for a total of approximately \$232 million. During the first quarter 2007, NRG repurchased an additional 1,500,000 shares of the Company's common stock for approximately \$103 million. As of March 31, 2007, NRG had repurchased a total of 16,300,581 shares of its common stock at a cost of approximately \$835 million as part of its Capital Allocation Program. The Company expects to complete Phase II of the Capital Allocation Program in 2007 with the repurchase of approximately an additional \$165 million of NRG common stock.

As part of Phase I of the Capital Allocation Program, NRG issued Notes and Preferred Interests to Credit Suisse which included an embedded derivative that NRG may choose to pay in cash or stock. At maturity, should NRG's stock price exceed a compound annual growth rate of 20% beyond the volume-weighted average share price at the time of repurchase, referred to as the Reference Price, NRG will pay to Credit Suisse the excess of NRG's stock price over the Reference Price. As of March 31, 2007, per the noted calculation, the amount owed to Credit Suisse was approximately \$24 million.

**Stock Dividend**

On April 25, 2007, NRG's Board of Directors approved a two-for-one stock split of the Company's outstanding shares of common stock to be effected in the form of stock dividend. The stock split will entitle each stockholder of record at the close of business on May 22, 2007 to receive one additional share for every outstanding share of common stock held. The additional shares resulting from the stock split are expected to be distributed by the Company's transfer agent on or about May 31, 2007. Upon the completion of the stock split, NRG will have approximately 242 million shares of common stock outstanding.

**Note 7 — Equity Compensation**

**Stock Options, or NQSO's**

The following table summarizes the change in the outstanding NQSO during the three months ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value Per Share
<b>Outstanding as of December 31, 2006</b>	1,705,536	\$ 35.18	\$ 13.40
Granted	368,600	55.83	16.36
Forfeited	(25,401)	49.76	15.01
Exercised	(37,393)	43.29	13.45
<b>Outstanding at March 31, 2007</b>	2,011,342	38.63	13.92
<b>Exercisable at March 31, 2007</b>	1,037,003	\$ 27.74	\$ 12.74

**Restricted Stock Units, or RSU's**

The following table shows the change in the outstanding RSU balance during the three months ended March 31, 2007:

Non-vested Shares	Shares	Weighted Average Grant-Date Fair Value Per Share
<b>Non-vested as of December 31, 2006</b>	1,138,593	\$ 31.48
Granted	44,700	55.83
Vested	(475,350)	19.99
Forfeited	(17,550)	37.25
<b>Outstanding as of March 31, 2007</b>	690,393	\$ 40.78

**Performance Units, or PU's**

The following table shows the change in the outstanding PU balance during the three months ended March 31, 2007:

Non-vested Shares	Shares	Weighted Average Grant-Date Fair Value Per Share
<b>Non-vested as of December 31, 2006</b>	205,332	\$ 34.49
Granted	88,800	35.00
Vested	—	—
Forfeited	(8,500)	33.12
<b>Outstanding as of March 31, 2007</b>	285,632	\$ 34.69

[Table of Contents](#)

**Note 8 — Earnings Per Share**

Basic earnings per common share is computed by dividing net income less accumulated preferred stock dividends by the weighted average number of common shares outstanding. Shares issued and treasury shares repurchased during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

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

(In millions, except per share data) Three months ended March 31,	2007	2006
<b>Basic earnings per share</b>		
<b>Numerator:</b>		
Income from continuing operations	\$ 65	\$ 15
Preferred stock dividends	(14)	(11)
Net income available to common stockholders from continuing operations	51	4
Discontinued operations, net of income tax expense	—	11
Net income available to common stockholders	\$ 51	\$ 15
<b>Denominator:</b>		
Weighted average number of common shares outstanding	122.0	117.4
<b>Basic earnings per share:</b>		
Income from continuing operations	\$ 0.42	\$ 0.04
Discontinued operations, net of income tax expense	—	0.09
Net income	\$ 0.42	\$ 0.13
<b>Diluted earnings per share</b>		
<b>Numerator:</b>		
Net income available to common stockholders from continuing operations	\$ 51	\$ 4
Add preferred stock dividends for dilutive preferred stock	4	—
Adjusted income from continuing operations	55	4
Discontinued operations, net of tax	—	11
Net income available to common stockholders	\$ 55	\$ 15
<b>Denominator:</b>		
Weighted average number of common shares outstanding	122.0	117.4
Incremental shares attributable to the issuance of equity compensation (treasury stock method)	1.6	1.4
Incremental shares attributable to embedded derivatives of certain financial instruments (if-converted method)	1.2	—
Incremental shares attributable to assumed conversion features of outstanding preferred stock (if-converted method)	10.5	—
Total dilutive shares	135.3	118.8
<b>Diluted earnings per share:</b>		
Income from continuing operations	\$ 0.41	\$ 0.04
Income from discontinued operations, net of tax	—	0.09
Net income	\$ 0.41	\$ 0.13

**Effects on Earnings per Share**

**Stock Awards**

*Non-Qualified Stock Options* — For the three months ended March 31, 2007, none of the Company's stock options were anti-dilutive. For the three months ended March 31, 2006, options to purchase 595,121 shares of common stock were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the

## [Table of Contents](#)

common stock for the respective periods, and therefore the effect would have been anti-dilutive.

*Performance Units* — For the three months ended March 31, 2007 and 2006, performance units of 252,332 and 206,332, respectively, were not included in the computation of diluted earnings per share because the average market price of NRG's common stock was less than the target price of the outstanding performance units, and therefore the effect would have been anti-dilutive.

### ***Preferred Stock***

*5.75% Preferred Stock* — For the three months ended March 31, 2007 and 2006, the shares of common stock associated with the 5.75% Preferred Stock were not included in the diluted earnings per share computation since its effect would have been anti-dilutive.

*4% Preferred Stock* — For the three months ended March 31, 2007, 10,500,000 shares of common stock associated with the 4% Preferred Stock were included in diluted earnings per share. For the three months ended March 31, 2006, the shares of common stock associated with the 4% Preferred Stock were not included in the diluted earnings per share computation since its effect would have been anti-dilutive.

*3.625% Preferred Stock* — The Company's 3.625% Preferred Stock contains an embedded derivative which allows for additional cash or common shares to be issued if the average stock price for a 20-day period prior to redemption exceeds \$59.08 — the market price trigger. For the three months ended March 31, 2007, the dilutive effect of the embedded derivative included in diluted earnings per share was 773,607 shares of common stock. For the three months ended March 31, 2006 calculation of diluted earnings per share was not impacted by this derivative because the market price trigger was higher than the average market price of NRG's common stock, and therefore its effect would have been anti-dilutive.

*Notes and Preferred Interests* — As part of Phase I of the Capital Allocation Program, NRG issued Notes and Preferred Interests to Credit Suisse which included an embedded derivative that NRG may choose to pay in cash or stock. At maturity, should NRG's stock price exceed a compound annual growth rate of 20% beyond the volume-weighted average share price at the time of repurchase, referred to as the Reference Price, NRG will pay to Credit Suisse the excess of NRG's stock price over the Reference Price. The value of this excess is considered dilutive for purposes of earnings per share. As of March 31, 2007, NRG's stock price exceeded the Reference Price creating a dilutive effect of 385,286 shares.

### ***Pro forma Earnings Per Share***

As discussed in Note 6, *Changes in Capital Structure*, on April 25, 2007, the Company's Board of Directors approved a two-for-one stock split of the Company's outstanding common stock to be effected in the form of a stock dividend, payable on or about May 31, 2007 to stockholders of record on May 22, 2007. Once the split becomes effective, future presentation of earnings per share will be retroactively recast for all prior periods. Taking into account the effect of the split, basic and diluted earnings per share for the three months ended March 31, 2007, would have been \$0.21 and \$0.20, respectively. Taking into account the effect of the split, basic and diluted earnings per share for the three months ended March 31, 2006, would have been \$0.06 and \$0.06, respectively.

### **Note 9 — Segment Reporting**

The Company's segment structure reflects NRG's core areas of operation which are primarily the geographic regions of the Company's wholesale power generation, thermal and chilled water business, and corporate activities. Within NRG's wholesale power generation operations, there are distinct components with separate operating results and management structures for the following regions: Texas, Northeast, South Central, West and International. All prior period information has been restated to reflect the change in the Company's segment structure as discussed in Note 17, *Segment Reporting*, to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006.

[Table of Contents](#)

(in millions) Three months ended March 31, 2007	Wholesale Power Generation								Total
	Texas	Northeast	South Central	West	International	Thermal	Corporate	Elimination	
Operating revenues	\$ 695	\$ 342	\$ 151	\$ 28	\$ 43	\$ 49	\$ 5	\$ (3)	\$ 1,310
Depreciation and amortization	114	25	17	—	1	3	1	—	161
Equity in earnings of unconsolidated affiliates	—	—	—	(2)	15	—	—	—	13
Income/(loss) from continuing operations before income taxes	113	38	10	5	24	23	(92)	—	121
<b>Net income/(loss)</b>	<b>\$ 60</b>	<b>\$ 38</b>	<b>\$ 10</b>	<b>\$ 5</b>	<b>\$ 17</b>	<b>\$ 23</b>	<b>\$ (88)</b>	<b>\$ —</b>	<b>\$ 65</b>
<b>Total assets</b>	<b>\$12,731</b>	<b>\$ 1,561</b>	<b>\$ 1,014</b>	<b>\$ 185</b>	<b>\$ 1,028</b>	<b>\$ 222</b>	<b>\$ 11,510</b>	<b>\$ (9,540)</b>	<b>\$18,711</b>

(in millions) Three months ended March 31, 2006	Wholesale Power Generation								Total
	Texas (a)	Northeast	South Central	West (b)	International	Thermal	Corporate	Elimination	
Operating revenues	\$ 406	\$ 392	\$ 172	\$ 1	\$ 42	\$ 42	\$ 8	\$ (20)	\$ 1,043
Depreciation and amortization	74	22	16	—	1	3	2	—	118
Equity in earnings of unconsolidated affiliates	—	—	—	(2)	21	—	2	—	21
Income/(loss) from continuing operations before income taxes	(7)	132	28	(4)	31	4	(150)	(20)	14
Income on discontinued operations, net of income taxes	—	—	—	—	1	—	10	—	11
<b>Net income/(loss)</b>	<b>\$ 18</b>	<b>\$ 132</b>	<b>\$ 28</b>	<b>\$ (2)</b>	<b>\$ 23</b>	<b>\$ 4</b>	<b>\$ (157)</b>	<b>\$ (20)</b>	<b>\$ 26</b>

(a) For the period February 2, 2006 to March 31, 2006.

(b) Only included the equity earnings of WCP.



[Table of Contents](#)**Note 10 — Income Taxes**

Income tax expense for the three months ended March 31, 2007 was \$56 million and an income tax benefit of \$1 million for the three months ended March 31, 2006. The income tax expense for the three months ended March 31, 2007 included domestic tax expense of \$48 million and foreign tax expense of \$8 million. The income tax benefit for the three months ended March 31, 2006 included domestic tax benefit of \$10 million and foreign tax expense of \$9 million.

A reconciliation of the U.S. statutory rate to NRG's effective tax rate from continuing operations for the three months ended March 31, 2007 and 2006 is as follows:

(In millions except rate data) Three months ended March 31,	2007	2006
Income from continuing operations before income taxes	\$ 121	\$ 14
Tax at 35%	42	5
State taxes	6	2
Valuation allowance	—	2
Disputed claims reserve	—	(7)
Foreign operations	(1)	(6)
Foreign dividend	5	1
Permanent differences including subpart F income and non-deductible interest expense	4	2
Income tax expense/(benefit)	\$ 56	\$ (1)
Effective income tax rate	46.3%	(7.1)%

The effective income tax rate for the three months ended March 31, 2007 and 2006 differs from the U.S. statutory rate of 35% due to a taxable dividend from foreign operations and non-deductible interest, offset by earnings in foreign jurisdictions that are taxed at rates lower than the U.S. statutory rate.

***Deferred tax assets and valuation allowance***

*Net deferred tax balance* — As of March 31, 2007, NRG recorded a net deferred tax asset of \$30 million. However, due to an assessment of positive and negative evidence, including projected capital gains and available tax planning strategies, NRG believes that it is more likely than not that a benefit will not be realized on \$583 million of tax assets, thus a valuation allowance has remained, resulting in a net deferred tax liability of \$553 million.

*NOL carryforwards* — As of March 31, 2007, the Company had NOL carryforwards available for domestic income tax purposes of \$70 million that will expire through 2027. In addition, NRG has cumulative foreign NOL carryforwards of \$273 million of which \$73 million will expire in 2016 and of which \$200 million does not have an expiration date.

***Uncertain tax benefits***

NRG has identified certain unrecognized tax benefits whose after tax value was \$712 million, and if recognized, \$19 million will impact the Company's effective tax rate. Of the \$712 million in unrecognized tax benefits, \$693 million relates to periods prior to the Company's emergence from bankruptcy, and in accordance with SOP 90-7 and the application of Fresh Start accounting, any recognized benefit would not impact the Company's effective tax rate but would increase Additional Paid In Capital. NRG has accrued interest and penalty related to these unrecognized tax benefits of approximately \$4 million as of the adoption of FIN 48 by the Company on January 1, 2007. There were no interest and penalties related to unrecognized tax benefits that were recognized in the Company's results of operations for the three months ended March 31, 2007.

*Tax jurisdictions* — NRG is subject to examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and various state and foreign jurisdictions including major operations located in Germany, Australia, and Brazil. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2002. With few exceptions, state and local income tax examinations are no longer open for years before 2003. The Company's significant foreign operations are also no longer subject to examination by local jurisdictions for years prior to 2000.

[Table of Contents](#)**Note 11 — Benefit Plans and Other Postretirement Benefits**

The net annual periodic pension cost for the three months ended March 31, 2007 and 2006 related to all of the Company's defined benefit pension plans, include the following components:

(In millions) Three months ended March 31	Defined Benefit Pension Plans	
	2007	2006
Service cost benefits earned	\$ 4	\$ 4
Interest cost on benefit obligation	4	3
Expected return on plan assets	(3)	(1)
Net periodic benefit cost	\$ 5	\$ 6

The net annual periodic cost for the three months ended March 31, 2007 and 2006 related to all of the Company's other post retirement benefits plans, include the following components:

(In millions) Three months ended March 31	Other Postretirement Benefits Plans	
	2007	2006
Service cost benefits earned	\$ 1	\$ 1
Interest cost on benefit obligation	1	1
Net periodic benefit cost	\$ 2	\$ 2

The total amount of employer contributions paid for the three months ended March 31, 2007 was \$12 million.

**Note 12 — Commitments and Contingencies****Commitments***Second Lien Structure*

NRG has granted second priority liens to certain counterparties on substantially all of the Company's assets in the United States in order to secure obligations, which are primarily long-term in nature under certain power sale agreements and related contracts. NRG uses the second lien structure to reduce the amount of cash collateral and letters of credit that it may otherwise be required to post from time to time to support its obligations under these agreements. Within the second lien structure, the Company can hedge up to 80% of its baseload capacity and 10% of its non-baseload assets with these counterparties. As of March 31, 2007, the net discounted exposure on the agreements and hedges that were subject to the second lien structure was approximately \$90 million.

*Coal Commitments*

NRG enters into long-term contractual arrangements to procure fuel and transportation services for the Company's generation assets. NRG entered into additional coal purchase agreements during the first quarter 2007 with total commitments of approximately \$303 million spanning over the next six years.

**Contingencies**

Set forth below is a description of the Company's material legal proceedings. Pursuant to the requirements of SFAS 5, *Accounting for Contingencies*, and related guidance, NRG records 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 NRG 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 materially adverse effect on NRG'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

## [Table of Contents](#)

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 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 uncertainty of litigation.

In addition to the legal proceedings noted below, NRG and its subsidiaries are party to other litigation or legal proceedings arising in the ordinary course of business. In management's opinion, the disposition of these ordinary course matters will not materially adversely effect NRG's consolidated financial position, results of operations, or cash flows.

NRG believes that it has valid defenses to the legal proceedings and investigations described below and intends to defend them vigorously. However, litigation is inherently subject to many uncertainties. There can be no assurance that additional litigation will not be filed against the Company or its subsidiaries in the future, asserting similar or different legal theories and seeking similar or different types of damages and relief. Unless specified below, the Company is unable to predict the outcome of these legal proceedings and investigations may have or reasonably estimate the scope or amount of any associated costs and potential liabilities. An unfavorable outcome in one or more of these proceedings could have a material impact on the Company's consolidated financial position, results of operations, or cash flows. NRG also has indemnity rights for some of these proceedings to reimburse NRG for certain legal expenses and to offset certain amounts deemed to be owed in the event of an unfavorable litigation outcome.

### ***California Electricity and Related Litigation***

NRG, WCP, WCP's four operating subsidiaries, Dynegy, Inc., and numerous other unrelated parties are the subject of numerous lawsuits that arose based on events that occurred in the California power market in 2000 and 2001. The complaints primarily allege that the defendants engaged in unfair business practices, price fixing, antitrust violations, and other market gaming activities. Certain of these lawsuits originally commenced in 2000 and 2001, which seek unspecified treble damages and injunctive relief, were consolidated and made a part of a Multi-District Litigation proceeding before the U.S. District Court for the Southern District of California. The consolidated cases moved between state and federal court several times. On May 5, 2005, the case was remanded to California state court, and under a scheduling order, defendants filed their objections to the pleadings. On July 22, 2005, based upon the filed rate doctrine and federal preemption, the court dismissed NRG Energy, Inc. without prejudice, leaving only subsidiaries of WCP remaining in the case. On October 3, 2005, the court sustained defendants' demurrer, dismissing the case against all remaining defendants. On December 2, 2005, the plaintiffs filed their notice of appeal from the dismissal with the California State Court of Appeals — Fourth District and on February 26, 2007, the court affirmed the lower court's judgment of dismissal. Other cases, including putative class actions, have been filed in state and federal court on behalf of business and residential electricity consumers that name WCP and/or subsidiaries of WCP, in addition to numerous other defendants. These complaints allege the defendants attempted to manipulate gas indexes by reporting false and fraudulent trades, and violated California's antitrust law and unfair business practices law. The complaints seek restitution and disgorgement, civil fines, compensatory and punitive damages, attorneys' fees, and declaratory and injunctive relief. Motion practice is proceeding in these cases and dispositive motions have been filed in several of these proceedings.

In September 2006, Dynegy executed a settlement agreement to resolve the class action claims in the natural gas anti-trust cases consolidated and pending in state court in San Diego, California. Approved in late December 2006, the Court has dismissed the class action claims. WCP and some of its subsidiaries were named defendants and Dynegy's settlement includes full releases for these entities. The settlement resolves claims by core and non-core California consumers of natural gas for damages arising from or relating to allegations of misreporting of natural gas transactions or wash trading. Preliminarily approved by the court, the settlement excludes similar cases filed by individual plaintiffs, which Dynegy continues to defend. Neither WCP and its subsidiaries nor NRG paid any defense costs or settlement funds, as Dynegy owed and provided a complete defense and indemnification.

In August 2006, Dynegy entered into an agreement to settle class action claims by California natural gas resellers and cogenerators. These claims are pending in Nevada federal district court in "*In Re Western States Wholesale Natural Gas Antitrust Litigation*". WCP and its subsidiaries are named defendants and Dynegy's settlement would include full releases for these entities. The settlement is expected to be submitted to the court for approval in 2007. Neither WCP, its subsidiaries, nor NRG paid any defense costs or settlement funds, as Dynegy owed and provided a complete defense and indemnification.

In cases relating to natural gas, Dynegy is defending WCP and/or its subsidiaries pursuant to an indemnification agreement and will be the responsible party for any loss. In cases relating to electricity, Dynegy's counsel is representing it and WCP and/or its subsidiaries, with each party responsible for half of the costs and each party responsible for half of any loss.

***California Department of Water Resources***

On December 19, 2006, the U.S. Court of Appeals for the Ninth Circuit reversed FERC's prior determinations regarding the enforceability of certain wholesale power contracts and remanded the case to FERC for further proceedings consistent with the decision. One of these contracts was the wholesale power contract between the California Department of Water Resources, or CDWR, and subsidiaries of WCP. This case originated with a February 2002 complaint filed at FERC by the State of California alleging that many parties, including WCP subsidiaries, overcharged the State. For WCP, the alleged overcharges totaled approximately \$940 million for 2001 and 2002. The complaint demanded that FERC abrogate the CDWR contract and sought refunds associated with revenues collected under the contract. In 2003, FERC rejected this complaint, denied rehearing, and the case was appealed to the Ninth Circuit where oral argument was held on December 8, 2004. On December 19, 2006, the Court decided that in FERC's review of the contracts at issue, FERC could not rely on the Mobile-Sierra standard presumption of just and reasonable rates, where such contracts were not reviewed by FERC with full knowledge of the then existing market conditions. WCP and the other defendants expect to seek review by the U.S. Supreme Court prior to the May 3, 2007, deadline. The Supreme Court is expected to decide in 2007 whether it will accept the appeal. At this time, while NRG cannot predict with certainty whether WCP will be required to make refunds for rates collected under the CDWR contract or estimate the range of any such possible refunds, a reconsideration of the CDWR contract by FERC with a resulting order mandating significant refunds could have a material adverse impact on NRG's financial position, statement of operations, and statement of cash flows. As part of the 2006 acquisition of Dynegy's 50% ownership interest in WCP, WCP and NRG assumed responsibility for any risk of loss arising from this case, unless any such loss was deemed to have resulted from certain acts of gross negligence or willful misconduct on the part of Dynegy, in which case any such loss would be shared equally between WCP and Dynegy.

***Connecticut Congestion Charges***

On November 28, 2001, CL&P sought recovery in the U.S. District Court for Connecticut for amounts it claimed were owed for congestion charges under the October 29, 1999 Standard Offer Services Contract. CL&P withheld approximately \$30 million from amounts owed to PMI under contract and PMI counterclaimed. CL&P's motion for summary judgment, which PMI opposed, remains pending. NRG cannot estimate at this time the overall exposure for congestion charges for the term of the contract prior to the implementation of standard market design, which occurred on March 1, 2003; however, the full amount withheld by CL&P has been reserved as a reduction to outstanding accounts receivable.

***Station Service Disputes***

On October 2, 2000, NiMo commenced an action against NRG in New York state court seeking damages related to NRG's alleged failure to pay retail tariff amounts for utility services at the Dunkirk Plant between June 1999 and September 2000. The parties agreed to consolidate this action with two other actions against the Huntley and Oswego Plants. On October 8, 2002, by stipulation and order, this action was stayed pending submission to FERC of the disputes in the action. At FERC, NiMo asserted the same claims and legal theories, and on November 19, 2004, FERC denied NiMo's petition and ruled that the NRG facilities could net their service obligations over each 30 calendar day period from the day NRG acquired the facilities. In addition, FERC ruled that neither NiMo nor the New York Public Service Commission could impose a retail delivery charge on the NRG facilities because they are interconnected to transmission and not to distribution. On April 22, 2005, FERC denied NiMo's motion for rehearing. NiMo appealed to the U.S. Court of Appeals for the D.C. Circuit which, on June 23, 2006, denied the appeal finding that NYISO's station service program that permits generators to self supply their station power needs by netting consumption against production in a month is lawful. On October 23, 2006, the D.C. Circuit denied NiMo's petition for rehearing and on January 22, 2007, NiMo sought review before the U.S. Supreme Court. On April 30, 2007, the U.S. Supreme Court denied NiMo's request for the review thus ending further avenues to appeal FERC's ruling in this matter. NRG currently believes it is adequately reserved.

On December 14, 1999, NRG acquired certain generating facilities from CL&P. A dispute arose over station service power and delivery services provided to the facilities. On December 20, 2002, as a result of a petition filed at FERC by Northeast Utilities Services Company on behalf of itself and CL&P, FERC issued an order finding that, at times when NRG is not able to self-supply its station power needs, there is a sale of station power from a third-party and retail charges apply. In August 2003, the parties agreed to submit the dispute to binding arbitration. In July and August 2006, the parties submitted their respective statements of the case to the three member arbitration panel. A discovery and briefing schedule was issued and a hearing is set for September 2007. NRG believes it is adequately reserved.

### **ITISA**

NRG's Brazilian project company, ITISA, the owner of a 155 MW hydro project in Brazil, is in arbitration with the former Engineering, Procurement and Construction, or EPC, contractor for the project, Inepar Industria e Construcoes, or Inepar. The dispute was commenced in arbitration by ITISA in September 2002 and pertains to certain matters arising under the EPC contract between the parties. ITISA sought Real 140 million and asserted that Inepar breached the contract. Inepar sought Real 39 million and alleged that ITISA breached the contract. On September 2, 2005, the arbitration panel ruled in favor of ITISA, awarding it Real 139 million and Inepar Real 4.7 million. Due to interest accrued from the commencement of the arbitration to the award date, ITISA's award was increased to approximately Real 227 million (approximately \$110 million as of March 31, 2007). ITISA has commenced the lengthy process in Brazil to execute on the arbitral award. NRG is unable to predict the outcome of this execution process. On December 21, 2005, Inepar's request for clarifications was denied. Due to the uncertainty of the ongoing collection process, NRG is accounting for receipt of any amounts as a gain contingency.

### **Disputed Claims Reserve**

As part of NRG's plan of reorganization, NRG funded a disputed claims reserve for the satisfaction of certain general unsecured claims that were disputed claims as of the effective date of the plan. Under the terms of the plan, as such claims are resolved, the claimants are paid from the reserve on the same basis as if they had been paid out in the bankruptcy. To the extent the aggregate amount required to be paid on the disputed claims exceeds the amount remaining in the funded claims reserve, NRG will be obligated to provide additional cash and common stock to satisfy the claims. Any excess funds in the disputed claims reserve will be reallocated to the creditor pool for the pro rata benefit of all allowed claims. The contributed common stock and cash in the reserves is held by an escrow agent to complete the distribution and settlement process. Since NRG has surrendered control over the common stock and cash provided to the disputed claims reserve, NRG recognized the issuance of the common stock as of December 6, 2003 and removed the cash amounts from the balance sheet. Similarly, NRG removed the obligations relevant to the claims from the balance sheet when the common stock was issued and cash contributed.

On April 3, 2006, the Company made a supplemental distribution to creditors under the Company's Chapter 11 plan, totaling \$25 million in cash and 2,541,000 shares of common stock. As of April 18, 2007, the reserve held approximately \$10 million in cash and approximately 691,709 shares of common stock. NRG believes the cash and stock together represent sufficient funds to satisfy all remaining disputed claims.

### **Note 13 — Regulatory Matters**

With the exception of NRG's thermal and chilled water business and decommissioning responsibilities related to STP, NRG's operations are not regulated operations subject to SFAS 71 and NRG does not record assets and liabilities that result from the regulated ratemaking processes. NRG does operate, however, in a highly regulated industry and the Company is subject to regulation by various federal and state agencies. As such, NRG is affected by regulatory developments at both the federal and state levels and in the regions in which NRG operates.

#### **Northeast Region**

*New England* — On December 28, 2006, the Attorneys General of the State of Connecticut and Commonwealth of Massachusetts filed an appeal of the FERC orders accepting the settlement of the New England capacity market design with the U.S. Court of Appeals for the D.C. Circuit. The settlement, filed March 7, 2006, by a broad group of New England market participants, provides for interim capacity transition payments for all generators in New England for the period starting December 1, 2006 through May 31, 2010, and the establishment of a Forward Capacity Market, or FCM, commencing May 31, 2010. On June 16, 2006, FERC issued an order accepting the settlement, which was reaffirmed on rehearing by order dated October 31, 2006. Interim capacity transition payments provided for under the FCM settlement commenced December 1, 2006, as scheduled. A successful appeal by the Attorneys General could disturb the settlement and create a refund obligation of interim capacity transition payments. On April 5, 2007, the Connecticut Attorney General filed a motion seeking to stay the interim capacity transition payments.

*New York* — A dispute is ongoing with respect to high prices for spinning reserves, or SR, and non-spinning reserves, or NSR, in the NYISO-administered markets during the period from January 29, 2000 to March 27, 2000. Certain entities have argued that the NYISO acted unreasonably in declining to invoke Temporary Extraordinary Operating Procedures, or TEP, to recalculate prices and that the markets should be resettled for various reasons. In a series of orders, FERC declined to grant the requested relief. On appeal, the U.S. Court of Appeals for the D.C. Circuit remanded the case back to FERC to further explain its decision not to utilize TEP to remedy certain of these market issues. On March 4, 2005, FERC issued an order reaffirming that (i) the NYISO acted reasonably in not invoking TEP, (ii) NYISO did not violate its tariff, and (iii) refunds should not be granted; this order was reaffirmed on rehearing

## [Table of Contents](#)

on November 17, 2005. These orders have subsequently been appealed to the D.C. Circuit. Resettlement of the market, while viewed as unlikely, could have a material financial impact on the Company's results of operations.

### ***West Region***

On December 1, 2006, NRG filed to extend the existing RMR agreements for NRG's Cabrillo Power I, LLC (Encina) and Cabrillo Power II, LLC (San Diego Jets) for 2007, seeking to continue the then-existing rate effective January 1, 2007. On January 24, 2007, FERC accepted the Cabrillo Power I filing. On January 30, 2007, FERC accepted the Cabrillo II filing, subject to refund, in response to protests filed by the CPUC and CAISO, and established settlement procedures. The parties have reached a settlement in principle that will result in an annual fixed revenue requirement of approximately \$5 million.

### **Note 14 — Environmental Matters**

The construction and operation of power projects are subject to stringent environmental and safety protection and land use laws and regulation in the U.S. If such laws and regulations become more stringent, or new laws, interpretations or compliance policies apply and NRG's facilities are not exempt from coverage, the Company could be required to make modifications to further reduce potential environmental impacts. In addition, increased public concern and mounting political pressure may result in federal or additional state requirements to reduce or mitigate the effects of greenhouse gases emissions, including carbon dioxide. In general, the effect of such future laws or regulations is expected to require the addition of pollution control equipment or the imposition of restrictions or additional costs on the Company's operations.

#### ***Environmental Capital Expenditures***

Based on current rules, technology and plans, NRG has estimated that \$1.3 billion of capital expenditures will be incurred during the period 2007 through 2012 in order to keep NRG's facilities in compliance with environmental laws. These expenditures are primarily related to installation of particulate, SO<sub>2</sub>, NO<sub>x</sub>, and mercury controls to comply with Clean Air Interstate Rule, or CAIR, and the Clean Air Mercury Rule, or CAMR, as well as installation of Best Technology Available under the Phase II 316(b) Rule. NRG typically updates its estimates for environmental capital expenditures annually. These plans, including installed equipment and timing as well as cost can be expected to change over time, in some cases materially. These plans are based on current regulatory requirements and best engineering practices. Changes to regulations or market conditions could result in changes to installed equipment timing or associated costs. Depending upon the outcome of the challenge to DNREC's Regulation No. 1146 discussed below, NRG will reassess its options for its Indian River power plant and associated costs.

#### ***Other Environmental Matters***

Under various federal, state, and local environmental laws and regulations, a current or previous owner or operator of any facility may be required to investigate and remediate releases or threatened releases of hazardous or toxic substances or petroleum products located at a facility, and may be held liable to a governmental entity or to third parties for property damage, personal injury and investigation and remediation costs incurred by the party in connection with any releases or threatened releases. These laws impose strict (without fault) and joint and several liability. The cost of investigation, remediation, or removal of any hazardous or toxic substances or petroleum products could be substantial.

#### ***Texas Region***

The lignite used to fuel the Texas region's Limestone facility is obtained from a surface mine adjacent to the facility under an amended long-term contract with Texas Westmoreland Coal Co., or TWCC, entered into in August 1999. TWCC is responsible for performing ongoing reclamation activities at the mine until all lignite reserves have been produced. When production is completed at the mine, NRG will be responsible for final mine reclamation obligations. The Railroad Commission of Texas has imposed a bond obligation of approximately \$70 million on TWCC for the reclamation of this lignite mine. Final reclamation activity is expected to commence in 2015. Pursuant to the contract with TWCC, an affiliate of CenterPoint Energy, Inc. has guaranteed \$50 million of this obligation until 2010. The remaining sum of approximately \$20 million has been bonded by the mine operator, TWCC. Under the terms of the agreement, NRG is required to post a corporate guarantee of TWCC's bond obligation in the amount of \$50 million when CenterPoint's obligation lapses. As of March 31, 2007, NRG has established an ARO of approximately \$20 million related to the mine reclamation obligation.

#### ***Northeast Region***

In January 2006, NRG Indian River Operations, Inc. received a letter of informal notification from the Delaware Department of Natural Resources and Environmental Control, or DNREC, stating that it may be a potentially responsible party with respect to a

[Table of Contents](#)

historic captive landfill. NRG is working with DNREC through the Voluntary Clean-up Program to investigate the site. The Company is unable to predict the financial impact at this time.

In November 2006, DNREC promulgated Regulation No. 1146, or Reg 1146, Electric Generating Unit Multi-Pollutant Regulation and Section 111(d) of the State Plan for the Control of Mercury Emissions from Coal-Fired Electric Steam Generating Units. These regulations govern the control of SO<sub>2</sub>, NO<sub>x</sub>, and mercury emissions from electric generating units. NRG's current plan to install controls at the Company's Indian River facility, while on an accelerated basis, is unable to meet certain deadlines for SO<sub>2</sub> and NO<sub>x</sub> controls in Phase 1, taking into account the time required, as a practical matter, to design, install, and commission the necessary equipment. NRG and the owners of all other subject facilities in the state filed a challenge to Reg 1146 with the Environmental Appeals Board, or EAB, on December 6, 2006. In addition, NRG also filed a protective appeal with the Delaware Superior Court on December 29, 2006. A hearing is scheduled to commence before the EAB on June 18, 2007. NRG is unable to predict the outcome of the proceedings at this time, but failure to obtain relief may result in a material impact on the Company's results of operations.

**South Central Region**

On January 27, 2004, NRG's Louisiana Generating, LLC and the Company's Big Cajun II plant received a request under Section 114 of the Clean Air Act, or CAA, from USEPA seeking information primarily related to physical changes made at the Big Cajun II plant, and subsequently received a notice of violation, or NOV, on February 15, 2005, alleging that NRG's predecessors had undertaken projects that triggered requirements under the PSD program, including the installation of emission controls. NRG submitted multiple responses commencing February 27, 2004 and ending on October 20, 2004. On May 9, 2006, these entities received from the Department of Justice, or DOJ, a notice of deficiency related to their responses, to which NRG responded on May 22, 2006. A document review was conducted at NRG's Louisiana Generating, LLC offices by the DOJ during the week of August 14, 2006. On December 8, 2006, the USEPA issued a supplemental NOV updating the original February 15, 2005 NOV. Discussions with the USEPA are ongoing and the Company cannot predict with certainty the outcome of this matter.

**Note 15 — Guarantees**

NRG and its subsidiaries enter into various contracts that include indemnification and guarantee provisions as a routine part of the Company's business activities. Examples of these contracts include asset purchases and sale agreements, commodity sale and purchase agreements, joint venture agreements, operation and maintenance agreements, service agreements, settlement agreements, and other types of contractual agreements with vendors and other third parties. These contracts generally indemnify the counterparty for tax, environmental liability, litigation and other matters, as well as breaches of representations, warranties and covenants set forth in these agreements. In some cases, NRG's maximum potential liability cannot be estimated, since the underlying agreements contain no limits on potential liability.

This footnote should be read in conjunction with the complete description under Note 25, *Guarantees*, to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006.

For the three months ended March 31, 2007, NRG had net increases to its guarantee obligations under other commercial arrangements of approximately \$128 million. These pertain to payment obligations of NRG Power Marketing, Inc., or PMI.

**Note 16 — Condensed Consolidating Financial Information**

As of March 31, 2007, the Company had \$1.2 billion of 7.25% Senior Notes due 2014, \$2.4 billion of 7.375% Senior Notes due 2016 and \$1.1 billion of 7.375% Senior Notes due 2017 outstanding. These notes are guaranteed by certain of NRG's current and future wholly-owned domestic subsidiaries, or guarantor subsidiaries.

Each of the following guarantor subsidiaries fully and unconditionally guaranteed the Senior Notes as of March 31, 2007:

Arthur Kill Power LLC	NRG Connecticut Affiliate Services Inc.
Astoria Gas Turbine Power LLC	NRG Devon Operations Inc.
Berrians I Gas Turbine Power LLC	NRG Dunkirk Operations Inc.
Big Cajun II Unit 4 LLC	NRG El Segundo Operations Inc.
Cabrillo Power I LLC	NRG Generation Holdings, Inc.
Cabrillo Power II LLC	NRG Huntley Operations Inc.

## [Table of Contents](#)

Chickahominy River Energy Corp.	NRG International LLC
Commonwealth Atlantic Power LLC	NRG Kaufman LLC
Conemaugh Power LLC	NRG Mesquite LLC
Connecticut Jet Power LLC	NRG MidAtlantic Affiliate Services Inc.
Devon Power LLC	NRG Middletown Operations Inc.
Dunkirk Power LLC	NRG Montville Operations Inc.
Eastern Sierra Energy Company	NRG New Jersey Energy Sales LLC
El Segundo Power, LLC	NRG New Roads Holdings LLC
El Segundo Power II LLC	NRG North Central Operations Inc.
GCP Funding Company, LLC	NRG Northeast Affiliate Services Inc.
Hanover Energy Company	NRG Norwalk Harbor Operations Inc.
Hoffman Summit Wind Project, LLC	NRG Operating Services, Inc.
Huntley IGCC LLC	NRG Oswego Harbor Power Operations Inc.
Huntley Power LLC	NRG Power Marketing Inc.
Indian River IGCC LLC	NRG Rocky Road LLC
Indian River Operations Inc.	NRG Saguaro Operations Inc.
Indian River Power LLC	NRG South Central Affiliate Services Inc.
James River Power LLC	NRG South Central Generating LLC
Kaufman Cogen LP	NRG South Central Operations Inc.
Keystone Power LLC	NRG South Texas LP
Lake Erie Properties Inc.	NRG Texas LLC
Louisiana Generating LLC	NRG Texas LP
Middletown Power LLC	NRG West Coast LLC
Montville IGCC LLC	NRG Western Affiliate Services Inc.
Montville Power LLC	Oswego Harbor Power LLC
NEO Chester-Gen LLC	Padoma Wind Power, LLC
NEO Corporation	Saguaro Power LLC
NEO Freehold-Gen LLC	San Juan Mesa Wind Project II, LLC
NEO Landfill Gas Holdings Inc.	Somerset Operations Inc.
NEO Power Services Inc.	Somerset Power LLC
New Genco GP, LLC	Texas Genco Financing Corp.
New Genco LP, LLC	Texas Genco GP, LLC
Norwalk Power LLC	Texas Genco Holdings, Inc.
NRG Affiliate Services Inc.	Texas Genco LP, LLC
NRG Arthur Kill Operations Inc.	Texas Genco Operating Services, LLC
NRG Asia-Pacific, Ltd.	Texas Genco Services, LP
NRG Astoria Gas Turbine Operations Inc.	Vienna Operations Inc.
NRG Bayou Cove LLC	Vienna Power LLC
NRG Cabrillo Power Operations Inc.	WCP (Generation) Holdings LLC
NRG Cadillac Operations Inc.	West Coast Power LLC
NRG California Peaker Operations LLC	

The non-guarantor subsidiaries include all of NRG's foreign subsidiaries and certain domestic subsidiaries. NRG conducts much of its business through and derives much of its income from its subsidiaries. Therefore, the Company's ability to make required payments with respect to its indebtedness and other obligations depends on the financial results and condition of its subsidiaries and NRG's ability to receive funds from its subsidiaries. Except for NRG Bayou Cove, LLC, which is subject to certain restrictions under the Company's Peaker financing agreements, there are no restrictions on the ability of any of the guarantor subsidiaries to transfer funds to NRG. In addition, there may be restrictions for certain non-guarantor subsidiaries.

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

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



**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**For the Three Months Ended March 31, 2007**

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations <sup>(a)</sup>	Consolidated Balance
<b>Operating Revenues</b>					
Total operating revenues	\$ 1,215	\$ 95	\$ —	\$ —	\$ 1,310
<b>Operating Costs and Expenses</b>					
Cost of operations	716	66	2	—	784
Depreciation and amortization	153	7	1	—	161
General and administrative	28	3	55	—	86
Development costs	23	—	—	—	23
Total operating costs and expenses	920	76	58	—	1,054
Gain on sale of assets	18	—	(1)	—	17
<b>Operating Income/(Loss)</b>	<b>313</b>	<b>19</b>	<b>(59)</b>	<b>—</b>	<b>273</b>
<b>Other Income/(Expense)</b>					
Equity in earnings of consolidated subsidiaries	32	—	156	(188)	—
Equity in earnings of unconsolidated affiliates	(2)	15	—	—	13
Other income, net	2	9	10	(5)	16
Interest expense	(70)	(26)	(90)	5	(181)
Total other income/( expense)	(38)	(2)	76	(188)	(152)
<b>Income From Continuing Operations Before Income Taxes</b>					
Taxes	275	17	17	(188)	121
Income Tax Expense/(Benefit)	99	5	(48)	—	56
<b>Net Income</b>	<b>\$ 176</b>	<b>\$ 12</b>	<b>\$ 65</b>	<b>\$ (188)</b>	<b>\$ 65</b>

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

**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**March 31, 2007**

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations <sup>(a)</sup>	Consolidated Balance
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ —	\$ 170	\$ 534	\$ —	\$ 704
Accounts receivable, net	369	40	—	—	409
Inventory	387	13	—	—	400
Derivative instruments valuation	853	—	1	—	854
Prepayments and other current assets	213	13	200	(124)	302
Total current assets	1,822	236	735	(124)	2,669
<b>Net property, plant and equipment</b>	<b>11,104</b>	<b>399</b>	<b>18</b>	<b>—</b>	<b>11,521</b>
<b>Other Assets</b>					
Investment in subsidiaries	488	—	9,155	(9,643)	—
Equity investments in affiliates	28	333	—	—	361
Notes receivable and capital lease	1,027	476	5,474	(6,501)	476
Goodwill	1,787	—	—	—	1,787
Intangible assets, net	957	1	—	—	958
Nuclear decommissioning trust	357	—	—	—	357
Derivative instruments valuation	182	—	5	—	187
Other non-current assets	24	84	175	—	283
Intangible assets held-for-sale	112	—	—	—	112
Total other assets	4,962	894	14,809	(16,144)	4,521
<b>Total Assets</b>	<b>\$ 17,888</b>	<b>\$ 1,529</b>	<b>\$ 15,562</b>	<b>\$ (16,268)</b>	<b>\$ 18,711</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt	\$ 40	\$ 100	\$ 36	\$ (47)	\$ 129
Accounts payable	(850)	271	874	—	295
Derivative instruments valuation	824	—	—	—	824
Accrued expenses and other current liabilities	340	65	(8)	(77)	320
Total current liabilities	354	436	902	(124)	1,568
<b>Other Liabilities</b>					
Long-term debt	5,474	837	8,827	(6,501)	8,637
Nuclear decommissioning reserve	280	—	—	—	280
Nuclear decommissioning trust liability	335	—	—	—	335
Deferred income taxes	532	(123)	214	—	623
Derivative instruments valuation	394	6	18	—	418
Out-of-market contracts	839	—	—	—	839
Other long-term obligations	379	30	28	—	437
Total non-current liabilities	8,233	750	9,087	(6,501)	11,569
<b>Total liabilities</b>	<b>8,587</b>	<b>1,186</b>	<b>9,989</b>	<b>(6,625)</b>	<b>13,137</b>
Minority interest	—	1	—	—	1
3.625% Preferred Stock	—	—	247	—	247
<b>Stockholders' Equity</b>	<b>9,301</b>	<b>342</b>	<b>5,326</b>	<b>(9,643)</b>	<b>5,326</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 17,888</b>	<b>\$ 1,529</b>	<b>\$ 15,562</b>	<b>\$ (16,268)</b>	<b>\$ 18,711</b>

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

**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2007**

(In millions)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations <sup>(a)</sup>	Consolidated Balance
<b>Cash Flows from Operating Activities</b>					
Net income	\$ 176	\$ 12	\$ 65	\$ (188)	\$ 65
Adjustments to reconcile net income to net cash provided by operating activities					
Distributions less than equity earnings of unconsolidated affiliates and consolidated subsidiaries	272	(12)	146	(416)	(10)
Depreciation and amortization of nuclear fuel	166	7	1	—	174
Amortization of financing costs and debt discount	—	2	7	—	9
Amortization of intangibles and out-of-market contracts	(29)	—	—	—	(29)
Amortization of unearned equity compensation	—	—	7	—	7
Changes in deferred income taxes	21	(3)	29	—	47
Changes in nuclear decommissioning liability	9	—	—	—	9
Changes in derivatives	91	1	(2)	—	90
Gain on sale of assets	(17)	—	—	—	(17)
Gain on sale of emission allowances	(5)	—	—	—	(5)
Changes in collateral deposits supporting energy risk management activities	(120)	—	—	—	(120)
Cash provided by/(used by) changes in other working capital, net of dispositions affects	(155)	(11)	52	—	(114)
<b>Net Cash Provided by Operating Activities</b>	<b>409</b>	<b>(4)</b>	<b>305</b>	<b>(604)</b>	<b>106</b>
<b>Cash Flows from Investing Activities</b>					
Proceeds from payment of intercompany loans	—	—	12	(12)	—
Capital expenditures	(106)	(1)	—	—	(107)
Decrease/(increase) in restricted cash	—	(5)	—	—	(5)
Decrease/(increase) in notes receivable	—	9	—	—	9
Purchases of emission allowances	(61)	—	—	—	(61)
Proceeds from sale of emission allowances	32	—	—	—	32
Proceeds from sale of assets	29	—	—	—	29
Purchases in trust fund securities	(68)	—	—	—	(68)
Proceeds from sales of trust fund securities	59	—	—	—	59
<b>Net Cash Provided/Used by Investing Activities</b>	<b>(115)</b>	<b>3</b>	<b>12</b>	<b>(12)</b>	<b>(112)</b>
<b>Cash Flows from Financing Activities</b>					
Payments to Parent for intercompany loans	(12)	—	—	12	—
Payments from intercompany dividends	(302)	(302)	—	604	—
Payments for dividends to preferred stockholders	—	—	(14)	—	(14)
Payments for treasury stock	—	—	(103)	—	(103)
Payments for short and long-term debt	(1)	(9)	(9)	—	(19)
<b>Net Cash Used by Financing Activities</b>	<b>(315)</b>	<b>(311)</b>	<b>(126)</b>	<b>616</b>	<b>(136)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	—	2	—	—	2
<b>Net Increase/(Decrease) in Cash and Cash Equivalent</b>	<b>(21)</b>	<b>(310)</b>	<b>191</b>	<b>—</b>	<b>(140)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>20</b>	<b>432</b>	<b>343</b>	<b>—</b>	<b>795</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ (1)</b>	<b>\$ 122</b>	<b>\$ 534</b>	<b>\$ —</b>	<b>\$ 655</b>

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

**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**December 31, 2006**

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations <sup>(a)</sup>	Consolidated Balance
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 20	\$ 432	\$ 343	\$ —	\$ 795
Restricted cash	1	43	—	—	44
Accounts receivable-trade, net	332	40	—	—	372
Inventory	408	13	—	—	421
Derivative instruments valuation	1,230	—	—	—	1,230
Prepayments and other current assets	200	32	736	(747)	221
Total current assets	2,191	560	1,079	(747)	3,083
<b>Net property, plant and equipment</b>	11,178	403	19	—	11,600
<b>Other Assets</b>					
Investment in subsidiaries	730	—	9,163	(9,893)	—
Equity investments in affiliates	31	313	—	—	344
Notes receivable and capital lease	1,015	479	5,503	(6,518)	479
Goodwill	1,789	—	—	—	1,789
Intangible assets, net	977	4	—	—	981
Nuclear decommissioning trust fund	352	—	—	—	352
Derivative instruments valuation	424	—	15	—	439
Other non-current assets	51	56	182	—	289
Intangible assets held-for-sale	78	—	1	—	79
Total other assets	5,447	852	14,864	(16,411)	4,752
<b>Total Assets</b>	<b>\$ 18,816</b>	<b>\$ 1,815</b>	<b>\$ 15,962</b>	<b>\$ (17,158)</b>	<b>\$ 19,435</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt	\$ 460	\$ 101	\$ 37	\$ (468)	\$ 130
Accounts payable	(682)	287	727	—	332
Derivative instruments valuation	964	—	—	—	964
Deferred income taxes	23	7	134	—	164
Accrued expenses and other current liabilities	509	53	160	(280)	442
Total current liabilities	1,274	448	1,058	(748)	2,032
<b>Other Liabilities</b>					
Long-term debt and capital lease	5,504	869	8,791	(6,517)	8,647
Nuclear decommissioning reserve	289	—	—	—	289
Nuclear decommissioning trust liability	324	—	—	—	324
Deferred income taxes	494	(104)	164	—	554
Derivative instruments valuation	325	6	20	—	351
Out-of-market contracts	897	—	—	—	897
Other non-current liabilities	385	26	24	—	435
Total non-current liabilities	8,218	797	8,999	(6,517)	11,497
<b>Total liabilities</b>	<b>9,492</b>	<b>1,245</b>	<b>10,057</b>	<b>(7,265)</b>	<b>13,529</b>
Minority interest	—	1	—	—	1
3.625% Preferred Stock	—	—	247	—	247
<b>Stockholders' Equity</b>	<b>9,324</b>	<b>569</b>	<b>5,658</b>	<b>(9,893)</b>	<b>5,658</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 18,816</b>	<b>\$ 1,815</b>	<b>\$ 15,962</b>	<b>\$ (17,158)</b>	<b>\$ 19,435</b>

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

**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**  
**For the Three Months Ended March 31, 2006**

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations <sup>(a)</sup>	Consolidated Balance
<b>Operating Revenues</b>					
Total operating revenues	\$ 957	\$ 86	\$ —	\$ —	\$ 1,043
<b>Operating Costs and Expenses</b>					
Cost of operations	596	61	2	—	659
Depreciation and amortization	111	6	1	—	118
General and administrative	22	—	35	—	57
Total operating costs and expenses	729	67	38	—	834
<b>Operating Income</b>	228	19	(38)	—	209
<b>Other Income/(Expense)</b>					
Equity in earnings of consolidated subsidiaries	22	—	161	(183)	—
Equity in earnings of unconsolidated affiliates	—	21	—	—	21
Write down of equity method investment	(3)	—	—	—	(3)
Other income, net	3	75	7	(5)	80
Refinancing expenses	—	—	(178)	—	(178)
Interest expense	(54)	(16)	(50)	5	(115)
Total other income/(expense)	(32)	80	(60)	(183)	(195)
<b>Income From Continuing Operations Before Income Taxes</b>					
Taxes	196	99	(98)	(183)	14
Income tax expense/(benefit)	85	35	(121)	—	(1)
<b>Income From Continuing Operations</b>	111	64	23	(183)	15
Income from discontinued operations, net of income taxes	—	8	3	—	11
<b>Net Income</b>	\$ 111	\$ 72	\$ 26	\$ (183)	\$ 26

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

**NRG ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2006**

(In millions)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations <sup>(a)</sup>	Consolidated Balance
<b>Cash Flows from Operating Activities</b>					
Net income	\$ 111	\$ 72	\$ 26	\$ (183)	\$ 26
Adjustments to reconcile net income to net cash provided by operating activities					
Distributions more/(less) than equity earnings of unconsolidated affiliates and consolidated subsidiaries	22	(12)	161	(183)	(12)
Depreciation and amortization of nuclear fuel	111	12	2	—	125
Amortization of financing costs and debt discount	—	2	8	—	10
Amortization of intangibles and out-of-market contracts	3	6	—	—	9
Amortization of unearned equity compensation	—	—	3	—	3
Write-off of deferred financing costs and debt premium	—	—	47	—	47
Write down of equity method investments	3	—	—	—	3
Changes in deferred income taxes	28	3	15	—	46
Changes in nuclear decommissioning liability	(3)	—	—	—	(3)
Changes in derivatives	(23)	(2)	4	—	(21)
Gain on sale of emission allowances	(59)	—	—	—	(59)
Gain on legal settlement	—	(67)	—	—	(67)
Gain on sale of discontinued operations	—	(10)	—	—	(10)
Changes in collateral deposits supporting energy risk management activities	230	—	—	—	230
Cash provided by/(used by) changes in other working capital, net of dispositions affects	(281)	36	(106)	366	15
<b>Net Cash Provided by Operating Activities</b>	<b>142</b>	<b>40</b>	<b>160</b>	<b>—</b>	<b>342</b>
<b>Cash Flows from Investing Activities</b>					
Acquisition of Texas Genco LLC and WCP	—	—	(4,288)	—	(4,288)
Capital expenditures	(32)	(3)	—	—	(35)
Decrease/(increase) in restricted cash	—	(3)	—	—	(3)
Changes in notes receivable	—	8	(2,760)	2,760	8
Investments in trust fund securities	(42)	—	—	—	(42)
Purchases of emission allowances	(15)	—	—	—	(15)
Proceeds from the sale of emission allowances	68	—	—	—	68
Proceeds from sales of trust fund securities	45	—	—	—	45
Proceeds from sale of investments	45	—	—	—	45
Proceeds from sale of discontinued operations	—	15	—	—	15
<b>Net Cash Used by Investing Activities</b>	<b>69</b>	<b>17</b>	<b>(7,048)</b>	<b>2,760</b>	<b>(4,202)</b>
<b>Cash Flows from Financing Activities</b>					
Payments for dividends to preferred stockholders	—	—	(10)	—	(10)
Payment of financing element of acquired derivatives	(29)	—	—	—	(29)
Proceeds from issuance of common stock, net	—	—	986	—	986
Proceeds from issuance of preferred shares, net	—	—	486	—	486
Proceeds from issuance of long-term debt	2,760	—	7,175	(2,760)	7,175
Funded letter of credit	—	—	350	—	350
Payment of deferred debt issuance costs	—	—	(164)	—	(164)
Payments for short and long-term debt	(2,735)	(12)	(1,876)	—	(4,623)
<b>Net Cash Provided/(Used) by Financing Activities</b>	<b>(4)</b>	<b>(12)</b>	<b>6,947</b>	<b>(2,760)</b>	<b>4,171</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	—	1	—	—	1
Change in Cash from Discontinued Operations	—	(17)	—	—	(17)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>207</b>	<b>29</b>	<b>59</b>	<b>—</b>	<b>295</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>(7)</b>	<b>78</b>	<b>422</b>	<b>—</b>	<b>493</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 200</b>	<b>\$ 107</b>	<b>\$ 481</b>	<b>\$ —</b>	<b>\$ 788</b>

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

**Note 17 — Subsequent Events**

During May 2007, the Company plans to seek several amendments to its Senior Credit Facility. The amendments include:

- Lower pricing for NRG's Term B loan and synthetic Letter of Credit facility;
- A provision that enables up to \$150 million annually for the payment of a recurring cash dividend on the Company's common stock;
- Reduction in the synthetic Letter of Credit facility from \$1.5 billion to \$1.3 billion;
- Ability to utilize a first lien position to support commercial hedges;
- Additional flexibility for *RepoweringNRG* projects; and
- A commitment from lenders that effectively converts one-third of existing Term B debt (approximately \$1 billion in the aggregate) to a holding company level planned for later this year.

To improve the efficiency of its capital allocation, the Company is planning to implement a holding company structure in the second half of 2007. Under the planned structure:

- NRG will become a wholly-owned operating subsidiary, or Opco, of a newly created holding company, or Holdco, and the shareholders of the Company will become shareholders of Holdco;
- Holdco will borrow up to \$1 billion in new Term B loan financing from its existing bank group; and
- Holdco will use the net proceeds to make a capital contribution to Opco, which Opco in turn will use for the prepayment of its Term B debt under the Senior Credit Facility.

Upon completion of the above, the Company's restricted payments capacity under its unsecured indenture will increase by an amount equal to the capital contribution from Holdco to Opco, thereby allowing a more efficient allocation of capital within the Company. On May 1, 2007, the Company entered into a commitment with certain financial institutions to backstop the \$1 billion financing planned for the Holdco level. Implementation of the Holdco structure described above is contingent upon a number of conditions being satisfied, including receiving certain regulatory approvals. While there can be no assurance that all of these conditions will be satisfied, the Company believes that the Holdco structure will be implemented by the end of 2007.

## ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Introduction and Overview

NRG Energy, Inc., NRG, or the Company, is a wholesale power generation company with a significant presence in major competitive power markets in the United States. NRG is primarily engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the trading of energy, capacity and related products in the United States and internationally. As of March 31, 2007, NRG had a total global portfolio of 191 active operating generation units at 49 power generation plants, with an aggregate generation capacity of approximately 24,025 MW. Within the United States, the Company has one of the largest and most diversified power generation portfolios in terms of geography, fuel-type and dispatch levels, with approximately 22,790 MW of generation capacity in 175 active generating units at 43 plants. These power generation facilities are primarily located in Texas (approximately 10,785 MW), and the Northeast (approximately 7,160 MW), South Central (approximately 2,850 MW), and the West (approximately 1,870 MW) regions of the United States, with approximately 125 MW of additional generation capacity from the Company’s thermal assets. NRG’s principal domestic power plants consist of a diversified mix of natural gas-, coal-, oil-fired and nuclear facilities, representing approximately 45%, 34%, 16% and 5% of the Company’s total domestic generation capacity, respectively. In addition, 15% of NRG’s domestic generating facilities have dual or multiple fuel capacity, which allows plants to dispatch with the lowest cost fuel option, and consist primarily of baseload, intermediate and peaking power generation facilities, which are referred to as the merit order, and also include thermal energy production plants. The sale of capacity and power from baseload generation facilities accounts for the majority of the Company’s revenues and provides a stable source of cash flow. In addition, NRG’s diverse generation portfolio provides the Company with opportunities to capture additional revenues by selling power during periods of peak demand, offering capacity or similar products to retail electric providers and others, and providing ancillary services to support system reliability. In addition, NRG is pursuing opportunities to repower existing facilities and develop new generation capacity in markets in which NRG currently owns assets in an initiative referred to as *RepowerinNRG*. In connection with NRG’s acquisition of Padoma Wind Power LLC, the Company has and will continue to actively evaluate and potentially develop or construct domestic terrestrial wind projects as part of the *RepoweringNRG* program.

NRG’s 2006 Annual Report on Form 10-K includes a detailed discussion of various items impacting its business, results of operations, and financial condition. These include:

- *Introduction and Overview section which provides a description of NRG’s business segments;*
- *Strategy section;*
- *Business Environment section, including how regulation, weather, and other factors affect NRG’s business; and*
- *Critical Accounting Policies section.*

Critical accounting policies are the accounting policies that are most important to the portrayal of NRG’s financial condition and results of operations and require management’s most difficult, subjective, or complex judgment. NRG’s critical accounting policies include revenue recognition and derivative accounting, income taxes and valuation allowance for deferred taxes, evaluation of assets for impairment and other than temporary decline in value, goodwill and other intangible assets, and contingencies.

This discussion and analysis explains the general financial condition and the results of operations for NRG, including:

- *factors which affect the business;*
- *earnings and costs in the periods presented;*
- *changes in earnings and costs between periods;*
- *sources of earnings;*
- *impact of these factors on NRG’s overall financial condition;*
- *expected future expenditures for capital projects; and*
- *expected sources of cash for further operations and capital expenditures.*

As you read this discussion and analysis, refer to the consolidated statements of income which present the results of operations for the three months ended March 31, 2007 and 2006. NRG analyzes and explains the differences between periods in the specific line items of the consolidated statements of income.

NRG has organized the discussion and analysis as follows:

- *changes to the business environment during the period;*



## [Table of Contents](#)

- *results of operations beginning with an overview of NRG's consolidated results, followed by a more detailed discussion of those results by major operating segment;*
- *financial condition, addressing liquidity, the sources and uses of cash, capital resources and commitments;*
- *known trends that will affect its results of operation and financial condition in the future.*

### **Changes in Accounting Standards**

See Note 1 to the condensed consolidated financial statements of this Form 10-Q as found in Item 1 for a discussion of recent accounting developments.

### **Environmental Matters**

On April 2, 2007, in *Environmental Defense v. Duke Energy*, the U.S. Supreme Court overturned a decision by a lower court that had previously upheld Duke Energy's modification of its coal plants as consistent with the USEPA's PSD regulations. NRG has not relied upon the Duke Energy interpretation of the PSD regulations whenever the Company has performed modifications at its plants and thus does not expect any material adverse impact regarding NSR from the Supreme Court's decision. Similarly, the Company has not relied upon the Duke Energy interpretation to support its repowering program.

The January 2007 court ruling on the appeal of the Phase II 316(b) water regulation created uncertainty for power plants that use once through cooling water. The regulation, for the most part, was sent back to EPA for reconsideration and expressly prohibited restoration. On March 20, 2007, the EPA issued a memo to Regional Administrators suspending the rule and directing them to rely on best professional judgment. Suspension of the rule is not expected to materially impact NRG plans, but could delay implementation.

### **Regulatory Matters**

As an operator of power plants and a participant in the wholesale markets, NRG is subject to regulation by various federal and state government agencies. In addition, NRG is subject to the market rules, procedures, and protocols of the various ISO markets in which NRG participates. These wholesale power markets are subject to ongoing legislative and regulatory changes. In some of NRG's regions, interested parties have advocated for material market design changes, including the elimination of a single clearing price mechanism, as well as proposals to re-regulate the markets or require divestiture by generating companies in order to reduce their market share. The Company cannot predict the future design of the wholesale power markets or the ultimate effect that the changing regulatory environment will have on NRG's business.

#### ***Northeast Region***

*New England* - On April 26, 2007, the Company filed an RMR agreement for its Norwalk Power facility, Units 1 & 2, with FERC, seeking a June 19, 2007 effective date and an annual fixed revenue requirement of \$38 million. This filing is in response to FERC's order eliminating the Peaking Unit Safe Harbor, or PUSH, bidding mechanism effective June 19, 2007.

*New York* - On March 6, 2007, FERC rejected the NYISO's proposed tariff revisions that would have imposed additional market power mitigation on the current owners of Consolidated Edison's divested generation units in New York City, including NRG's Arthur Kill and Astoria facilities. The proposed mitigation would have effectively lowered the capacity offer cap for those units from \$105/kW-year to \$82/kW-year. Although the specific proposal was rejected, FERC initiated an investigation to determine the justness and reasonableness of the NYISO's in-city ICAP market, setting a refund effective date of May 12, 2007. FERC is expected to commence hearing procedures as settlement procedures have concluded. The result of this proceeding could adversely impact capacity revenues for NRG's units in New York.

#### ***West Region***

In November 2006, NRG was awarded a 260 MW PPA by Southern California Edison, or SCE, to repower Units 1-4 at the Company's Long Beach Generating Station in Long Beach, California. On January 25, 2007, the CPUC issued its order approving the agreement and authorizing cost recovery by SCE. Intervenors sought rehearing, and the CPUC issued an order on April 19, 2007 denying the petition of two intervenors. These intervenors could appeal. NRG has reached a resolution with the remaining intervenor. Although the CPUC approval is not final and NRG may face other challenges, NRG is proceeding with the project.

[Table of Contents](#)

**Consolidated Results of Operations**

The following table provides selected financial information for the Company for the three months ended March 31, 2007 and 2006:

(In millions except otherwise noted)	Three months ended March 31,		
	2007	2006	Change %
<b>Operating Revenues</b>			
Energy revenue	\$ 947	\$ 556	70%
Capacity revenue	273	290	(6)
Risk management activities	(43)	52	NA
Contract amortization	52	44	18
Thermal revenue	41	38	8
Other revenues	40	63	(37)
Total operating revenues	1,310	1,043	26
<b>Operating Costs and Expenses</b>			
Cost of operations	784	659	19
Depreciation and amortization	161	118	36
General and administrative	86	57	51
Development costs	23	—	NA
Total operating costs and expenses	1,054	834	26
Gain on sale of assets	17	—	NA
<b>Operating income</b>	273	209	31
<b>Other Income/(Expense)</b>			
Equity in earnings of unconsolidated affiliates	13	21	(38)
Write down of equity method investments	—	(3)	NA
Other income, net	16	80	(80)
Refinancing expenses	—	(178)	NA
Interest expense	(181)	(115)	57
Total other expenses	(152)	(195)	(22)
<b>Income from Continuing Operations before income tax expense</b>	121	14	764
Income tax expense/(benefit)	56	(1)	NA
<b>Income from Continuing Operations</b>	65	15	333
Income from discontinued operations, net of income tax expense	—	11	NA
<b>Net Income</b>	\$ 65	\$ 26	150
<b>Business Metrics</b>			
Average natural gas price — Henry Hub (\$/MMBtu)	7.19	7.69	(7)%

NA — Not Applicable

**Consolidated Discussion:**

*Operating Revenues*

Operating revenues increased by \$267 million during the three months ended March 31, 2007, compared to 2006. This was primarily due to:

- o *Energy revenues* — energy revenues increased by \$391 million during the three months ended March 31, 2007, compared to 2006:
  - Texas energy revenues increased by \$361 million for the three months ended March 31, 2007, compared to 2006. Of this increase \$217 million was due to the inclusion of three months activity in 2007 compared to two months in 2006, and \$39 million is due to the Hedge Reset as average forward prices increased by approximately \$12 per MWh for 2007 compared to 2006. The remaining increase was due to a reduction of the Power Utility Commission of Texas, or PUCT, auctioned capacity that is now being sold on the merchant market at higher prices. Prior to the Acquisition, PUCT regulations required that Texas sell 15% of its capacity by auction at reduced rates. In March 2006, the PUCT accepted NRG's request to discontinue these auctions and such capacity is now being sold in the merchant market at higher prices.

## Table of Contents

- Northeast energy revenues increased by approximately \$49 million of which \$24 million was due to an 11% increase in generation led by the region's oil-fired assets whose generation increased by 176 thousand MWh compared to 2006 and \$25 million was due to a 7% increase in average power prices. These increases were due to a relatively colder winter during 2007 compared to 2006 as demonstrated by a 12% increase in HDDs in the region.
- o *Capacity revenues* — capacity revenues decreased by \$17 million during the three months ended March 31, 2007, compared to 2006, due to a decrease in the Texas capacity revenues that were partially offset by increases in capacity revenues in the Northeast and West regions:
  - *Texas* — capacity revenues decreased by \$73 million in the first quarter 2007 compared to 2006 due to a reduction of auction sales mandated by the PUCT in prior years as described above.
  - *Northeast* — capacity revenues increased by \$25 million - \$12 million of the increase is from the NEPOOL assets and \$12 million is from New York Rest of State assets. The NEPOOL assets benefited from the new LFRM market and transition capacity market, both introduced in the fourth quarter of 2006. During the three months ended March 31, 2007, capacity revenues increased by \$9 million from the LFRM market and \$7 million from transition capacity payments, offset by a reduction of \$4 million due to the expiration of an RMR agreement for our Devon plant on December 31, 2006. New York Rest of State capacity prices increased by 174% during the first quarter of 2007 compared to 2006 as load requirement growth increased demand for capacity, coupled with the impact from the new capacity markets in NEPOOL which reduced exported supply into the New York market that further improved the supply/demand dynamics.
  - *West* — capacity revenues increased by \$26 million as its results were not consolidated during the three months ended March 31, 2006. These capacity revenues are comprised of new tolling agreements at the El Segundo and Encina plants that will expire in April 2008 and December 2009, respectively.
- o *Contract amortization* — revenues from contract amortization increased by \$8 million during the three months ended March 31, 2007, compared to 2006, as a result of in-the-market power contracts acquired with Texas Genco LLC that were fully amortized in 2006. In-the-market power contracts are amortized as a reduction to revenues.
- o *Other revenues* — other revenues decreased by \$23 million during the three months ended March 31, 2007 compared to 2006 due to the following factors:
  - *Sale of SO<sub>2</sub> allowances* — net sales of emission allowances decreased by \$53 million for the quarter ended March 31, 2007, compared to 2006. Due to increased generation and a decrease of approximately 59% in market prices, the Company reduced its activity in the sale of emission allowances.
  - *Physical sale of natural gas* — with natural gas generation decreasing by 14%, the Company sold its excess natural gas to third parties increasing other revenues by approximately \$19 million during the three months ended March 31, 2007, compared to 2006.
  - *Ancillary revenues* — during the three months ended March 31, 2007, the Company's revenues from ancillary services increased by approximately \$8 million due to a change in strategy to actively provide ancillary services in the Texas region in lieu of merchant revenues.
- o *Risk management activities* — revenues from risk management activities include all derivative activity that does not qualify for hedge accounting as well as the ineffective portion associated with hedged transactions. Such revenues decreased by \$95 million during the three months ended March 31, 2007, compared to 2006. The breakdown of changes by region are as follows:

(In millions)	Three months ended March 31, 2007				Three months ended March 31, 2006			
	Texas	Northeast	South Central	Total	Texas (a)	Northeast	South Central	Total
Net gains/(losses) on settled positions, or <i>financial revenues</i>	\$ 18	\$ 29	\$ —	\$ 47	\$ —	\$ (1)	\$ 4	\$ 3
<b>Mark-to-market results</b>								
Reversal of previously recognized unrealized (gains)/losses on settled positions related to economic hedges	(31)	(26)	—	(57)	—	45	—	45
Reversal of previously recognized unrealized (gains)/losses on settled positions related to trading activity	1	(9)	(5)	(13)	—	(24)	—	(24)
Net unrealized gains/(losses) on open positions related to economic hedges	(10)	(25)	—	(35)	(2)	30	1	29
Net unrealized gains/(losses) on open positions related to trading activity	2	2	11	15	—	(1)	—	(1)
<b>Subtotal mark-to-market results</b>	<b>(38)</b>	<b>(58)</b>	<b>6</b>	<b>(90)</b>	<b>(2)</b>	<b>50</b>	<b>1</b>	<b>49</b>
Total derivative gain/(loss)	\$ (20)	\$ (29)	\$ 6	\$ (43)	\$ (2)	\$ 49	\$ 5	\$ 52

(a) the period February 2, 2006 to March 31, 2006 only.

## [Table of Contents](#)

NRG's first quarter 2007 loss was comprised of \$90 million of mark-to-market losses offset by \$47 million in settled gains, or financial revenue. Of the \$90 million of mark-to-market losses, \$57 million represents the reversal of mark-to-market gains recognized on economic hedges during 2006 and \$13 million from the reversal of mark-to-market gains recognized on trading activity during 2006. Both of these gains ultimately settled as financial revenues during 2007. The \$35 million loss from economic hedge positions is comprised of a \$79 million decrease in value of forward sales of electricity and fuel due to unfavorable power and gas prices offset by a \$44 million gain from hedge accounting ineffectiveness related to gas swaps in the Texas region due to a change in the correlation at March 31, 2007, between natural gas and power prices.

Since these hedging activities are intended to mitigate the risk of commodity price movements on revenues and cost of energy sold, the changes in such results should not be viewed in isolation, but rather taken together with the effects of pricing and cost changes on energy revenues (which are recorded net of financial instruments hedges that are afforded hedge accounting treatment) and cost of energy.

### **Cost of Operations**

Cost of operations for the year ended March 31, 2007, increased by \$125 million compared to 2006, but as a percentage of revenues it decreased from 63% in 2006 to 60% in 2007:

- o *Cost of energy* — cost of energy increased by approximately \$52 million during the three month period ended March 31, 2007, compared to 2006. This increase is due to:
  - *Texas* — although Texas results included an additional month's expense of \$96 million in 2007, this was offset by a \$35 million reduction in purchased power during 2007 as compared to 2006 and a reduction in amortized fuel costs of \$15 million during 2007 compared to 2006. During 2006, Texas purchased power due to forced outages at the Parish and Limestone plants. Amortized fuel costs decreased by \$15 million due to changes in purchase price allocations that were finalized in the fourth quarter of 2006. In addition, coal expense decreased by approximately \$6 million due to lower contractual rates for coal purchases.
  - *Northeast* — Northeast expenses increased by \$36 million due to an 11% increase in generation, resulting in \$33 million of additional oil costs and \$15 million of additional natural gas costs. This was offset by reduced emission allowance amortization expense of \$8 million and lower coal expense of approximately \$4 million. The change in emission amortization expense was due to the reduced value of emission allowances with the reduction in coal expense due to lower contractual rates on coal purchases.
  - *South Central* — although South Central generation was relatively flat, cost of energy decreased by \$9 million. Higher coal and transportation costs due to contractual rate increases resulted in a \$7 million increase in fuel expense, while transmission costs increased by \$4 million due to contractual increases in transmission rates; these increases were offset by lower purchased power of \$19 million due to the increased reliance of satisfying contract load requirements with generation from the region's Big Cajun II plant.
- o *Other operating expenses* — Other operating expenses increased by \$73 million during the three month period ended March 31, 2007, compared to 2006. This increase was primarily due to:
  - *Acquisition of Texas and WCP* — the results for the three months ended March 31, 2007, included \$38 million of Texas expenses and \$15 million of WCP expenses that were not included in the Company's results in 2006.
  - *Planned outages* — Operations and maintenance expense increased by \$16 million during the two months ended March 31, 2007, compared to 2006 due to the planned refueling outage at STP and an acceleration of the W. A. Parish Unit 5 planned outage.
  - *Property taxes* — property taxes increased by approximately \$6 million due to the increase in assessed values of the Company's assets following the acquisition of Texas Genco LLC in 2006.

## [Table of Contents](#)

### ***Depreciation and Amortization***

NRG's depreciation and amortization expense for the three months ended March 31, 2007 increased by \$43 million compared to 2006. This increase was primarily due to:

- o *Texas acquisition* — the inclusion of Texas results for three months in 2007 compared to only two months in 2006 that resulted in an increase of approximately \$38 million.
- o *Impact of new environmental legislation* — Due to new and more restrictive environmental legislation, the useful life of certain types of pollution control equipment has been reduced. The company accelerated the depreciation of these types of equipment to reflect the remaining useful life, resulting in increased depreciation of approximately \$3 million.

### ***General and Administrative***

NRG's general and administrative, or G&A, costs for the three months ended March 31, 2007 increased by \$29 million compared to 2006. This increase was primarily due to:

- o *Texas acquisition* — the inclusion of Texas results for three months in 2007 compared to only two months in 2006 resulted in an increase of approximately \$7 million.
- o *Wage and Benefit Costs* — an increase in headcount, higher bonus accrual rates and related benefit costs resulted in a \$17 million increase in G&A.
- o *Franchise tax* — the Company's Louisiana state franchise tax increased by approximately \$6 million during the three months ended March 31, 2007, as compared to 2006. This is because the state of Louisiana franchise tax is assessed based on the Company's total debt and equity that significantly increased following the acquisition of Texas Genco LLC.

### ***Development Costs***

NRG's development costs were \$23 million for the three months ended March 31, 2007. These costs were due to the Company's *Repowering NRG* projects:

- o *Texas* — Costs to develop nuclear units 3 and 4 at STP accounted for approximately \$17 million of the Company's first quarter 2007 development costs.
- o *Other project* — \$5 million in development costs related to other *Repowering NRG* project in the Northeast and West regions as well as certain wind projects.

### ***Gain on Sale of Assets***

NRG's gain on sale of assets for the three months ended March 31, 2007 was approximately \$17 million. On January 3, 2007, NRG completed the sale of the Company's Red Bluff and Chowchilla II power plants resulting in a pre-tax gain of approximately \$18 million.

### ***Equity in Earnings of Unconsolidated Affiliates***

NRG's equity earnings from unconsolidated affiliates for the three months ended March 31, 2007 decreased by \$8 million compared to 2006. This decrease was primarily due to:

- o *Sale of multiple equity investments* — equity earnings of \$5 million were earned in the three months ended March 31, 2006, from multiple affiliates that were either sold or subsequently consolidated, including: WCP, Rocky Road, James River and Latin American Fund.
- o *MIBRAG* — equity earnings were \$5 million less during 2007 compared to 2006 following reduced sales of coal. The reduction in sales is due to reduced demand from MIBRAG's customers due to the warm winter in Germany this quarter and transmission difficulties experienced by one of its primary customers.

### ***Other Income, Net***

NRG's other income for the three months ended March 31, 2007 decreased by \$64 million compared to 2006. This decrease was primarily due to:

- o *Non-cash settlement* — during the first quarter 2006, NRG recorded approximately \$67 million of other income associated with a settlement with an equipment manufacturer related to turbine purchase agreements entered into in 1999 and 2001. The

## [Table of Contents](#)

settlement resulted in the reversal of accounts payable totaling \$35 million resulting from the discharge of the previously recorded liability, and an adjustment to record the value of the equipment received to its fair value, resulting in income of approximately \$32 million.

- o *Interest income* — increased by approximately \$2 million for the three months ended March 31, 2007 compared to 2006 due to higher market interest rates on deposits.

### **Interest Expense**

NRG's interest expense for the three months ended March 31, 2007 increased by \$66 million compared to 2006. This increase is due to:

- o *Refinancing for the acquisition of Texas Genco LLC in February 2006* — the Company significantly increased its corporate debt facilities from approximately \$2 billion as of December 31, 2005, to approximately \$7 billion as of March 31, 2006. This increased interest expense for the three months ended March 31, 2007, by \$37 million compared to 2006.
- o *Increase of \$1.1 billion in debt for Hedge Reset* — the Company issued \$1.1 billion in Senior Notes due 2017 in November 2006 related to the Hedge Reset, which increased interest expense by \$20 million for the three months ended March 31, 2007.
- o *Capital Allocation Program* — the Company issued a total of \$330 million of debt to fund Phase I of the Capital Allocation Program. This increased interest expense for the three months ended March 31, 2007 by \$7 million compared to 2006.

In the first quarter 2006, NRG entered into interest rate swaps with the objective of fixing the interest rate on a portion of NRG's new Senior Credit Facility. These swaps were designated as cash flow hedges under FAS 133, and the impact associated with ineffectiveness was immaterial to NRG financial results. For the three months ended March 31, 2007, NRG had deferred a loss of \$7 million in other comprehensive income compared to deferred gains of \$42 million in 2006.

### **Refinancing Expense**

Refinancing expense decreased by \$178 million during the three months ended March 31, 2007, compared to 2006 due to the refinancing of the Company's corporate debt for the acquisition of Texas Genco LLC on February 2, 2006. During 2007, NRG did not refinance any debt.

### **Income Tax Expense**

Income tax expense increased by \$57 million during the three months ended March 31, 2007, compared to 2006. The effective tax rate was 46.3% and (7.1%) for the three months ended March 31, 2007 and 2006, respectively. The increase in tax expense was primarily due to increased profits and an increase in permanent differences:

- o *Increased profits* — income before tax increased by \$107 million during the three months ended March 31, 2007, compared to 2006, with a corresponding increase of approximately \$42 million in tax expense.
- o *Permanent differences* —
  - Taxable dividends from foreign subsidiaries — in January 2007 the Company transferred the proceeds from the sale of its Flinders assets to the US creating additional tax expense of approximately \$5 million.
  - Non-deductible interest — interest expense from the stock buybacks from Phase I of the Company's Capital Allocation Program increased tax expense by approximately \$3 million.
  - Lower tax rates in foreign jurisdictions — lower tax rates at the Company's foreign locations reduced tax expense by \$6 million during the three months ended March 31, 2007 compared to 2006.
  - During the first quarter 2006, the Company distributed payments from its disputed claims reserve that reduced income tax expense by approximately \$7 million.

The effective tax rate may vary from period to period depending on, among other factors, the geographic and business mix of earnings and losses and the creation of valuation allowances in accordance with SFAS 109. These factors and others, including the Company's history of pre-tax earnings and losses, are taken into account in assessing the ability to realize deferred tax assets.

### **Income from Discontinued Operations, Net of Income Tax Expense**

Income from discontinued operations decreased by \$11 million during the three months ended March 31, 2007, compared to 2006 as all discontinued operations were disposed of in 2006. During 2006 the Company sold its Audrain, Flinders and Resource Recovery operations that were classified as discontinued operations, with \$10 million due to the after tax gain from the sale of Audrain and \$1 million due to the aggregated results of their remaining operations for the three month period ended March 31, 2006.

[Table of Contents](#)**Business Segment Results**

The following is a detailed discussion of the results of operations of NRG's major wholesale power generation business segments.

**Texas**

For a discussion of the business profile of the Company's Texas operations, see pages 18-22 of NRG Energy, Inc's. 2006 Annual Report on Form 10-K. First quarter 2007 results of operations are not comparable to the first quarter 2006 results of operations for the Texas region due to the acquisition of Texas Genco LLC on February 2, 2006.

*Selected income statement data*

(In millions except otherwise noted)

Three months ended March 31,	2007	2006 (a)	Change %
<b>Operating Revenues</b>			
Energy revenue	\$ 563	\$ 202	179
Capacity revenue	92	165	(44)
Risk management activities	(20)	(2)	900
Contract amortization	47	41	15
Other revenues	13	—	NA
Total operating revenues	695	406	71
<b>Operating Costs and Expenses</b>			
Cost of energy	237	218	9
Other operating expenses	186	95	96
Depreciation and amortization	114	74	54
<b>Operating Income</b>	\$ 159	\$ 18	783
MWh sold (in thousands)	10,978	7,313	50
MWh generated (in thousands)	10,742	6,538	64
<b>Business Metrics</b>			
Average on-peak market power prices (\$/MWh)	56.95	55.35	3
Cooling Degree Days, or CDDs (b)	102	97	5
CDD's 30 year rolling average	80	66	21
Heating Degree Days, or HDDs (b)	1,203	607	98
HDD's 30 year rolling average	1,270	677	88

(a) For the period February 2, 2006 to March 31, 2006 only.

(b) National Oceanic and Atmospheric Administration-Climate Prediction Center — A CDD represents the number of degrees that the mean temperature for a particular day is above 65 degrees Fahrenheit in each region. An HDD represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit in each region. The CDDs/HDDs for a period of time are calculated by adding the CDDs/HDDs for each day during the period.

**Operating Income**

For the three months ended March 31, 2007, operating income increased by \$141 million as compared to 2006. Of this increase, \$68 million is due to the January 2007 results on 4.2 million MWh of generation. For the two months ended March 31, 2007, the Hedge Reset increased the region's revenues by approximately \$39 million as compared to 2006 as the average price of the underlying power contracts increased by \$12 per MWh. Offsetting the Hedge Reset impact were increased development costs and higher maintenance expenses.

**Operating Revenues**

Total operating revenues from the Texas region increased by \$289 million during the three months ended March 31, 2007, as compared to 2006, due to the following:

- o *Energy revenues* — energy revenues increased by \$361 million for the three months ended March 31, 2007, compared to 2006. Of this increase, \$217 million was due to the inclusion of three months activity in 2007 compared to two months in 2006, and \$39 million was mainly due to the Hedge Reset as average forward prices increased by approximately \$12 per MWh for 2007 compared to 2006. The remaining increase was due to a reduction of the Power Utility Commission of Texas, or PUCT,

## [Table of Contents](#)

auctioned capacity that is now being sold on the merchant market at higher prices. Prior to the Acquisition, PUCT regulations required that Texas sell 15% of its capacity by auction at reduced rates. In March 2006, the PUCT accepted NRG's request to discontinue these auctions and such capacity is now being sold in the merchant market at higher prices.

- o *Capacity revenues* — capacity revenues decreased by \$73 million in the first quarter 2007 compared to 2006 due to reduction of auction sales mandated by the PUCT in prior years.
- o *Contract amortization* — revenues from contract amortization increased by \$7 million during the three months ended March 31, 2007, compared to 2006, as a result of in-the-market power contracts acquired with Texas Genco LLC that were fully amortized in 2006. In-the-market power contracts are amortized as a reduction to revenues.
- o *Other revenues* — during the three months ended March 31, 2007, the Company's revenues from ancillary services increased by approximately \$10 million due to a change in strategy to actively provide ancillary services in the Texas region in lieu of merchant revenues.

*Risk Management Activity* — Total derivative loss for the quarter was \$20 million, compared to a loss of \$2 million in the first quarter of 2006, as the Company's derivative activity increased during the second quarter of 2006. The derivative loss of \$20 million is comprised of financial revenues of \$18 million offset by mark-to-market losses of \$38 million. Of these mark-to-market losses, \$31 million was due to the roll-off of 2006 mark-to-market gains and \$10 million was related to for open positions on forward hedges — a \$54 million loss from forward contracted electric and gas sales offset by a \$44 million gain in cash flow hedge ineffectiveness due to a decline in the correlation between natural gas and power prices.

### **Cost of Energy**

Cost of energy for the Texas region increased by \$19 million during the three months ended March 31, 2007, compared to 2006. This included an additional month's expense of \$96 million in 2007, without which cost of energy would have decreased by \$77 million. This was due to:

- o *Purchased power* — decreased by \$35 million during 2007 as compared to 2006 due to forced outages at the region's Parish and Limestone plants in 2006.
- o *Amortized fuel costs* — decreased by approximately \$15 million during 2007 as compared to 2006 due to changes in purchase price allocations that were finalized in the fourth quarter of 2006
- o *Coal expense* — decreased by approximately \$6 million due to lower contractual rates for coal purchases.

### **Other Operating Expenses**

Other operating expenses for the Texas region increased by \$91 million during the three months ended March 31, 2007 compared to 2006. This was due to:

- o *Texas acquisition* — the inclusion of Texas results for three months in 2007 compared to only two months in 2006 that resulted in an increase of approximately \$53 million, of which \$32 million was related to operating and maintenance costs, \$6 million was property taxes and \$15 million was related to general and administrative expenses and corporate allocations.
- o *Planned outages* — Operations and maintenance expense increased by \$16 million during the two months ended March 31, 2007, compared to 2006 due to the planned refueling outage at STP and an acceleration of the W. A. Parish Unit 5 planned outage.
- o *Development costs* — as part of *Repowering NRG*, development costs totaled \$18 million in the first quarter 2007. Of this amount, \$17 million was incurred for developing nuclear Units 3 & 4 at STP.



**Northeast Region**

For a discussion of the business profile of the Northeast region, see pages 22-25 of NRG Energy, Inc's. 2006 Annual Report on Form 10-K.

**Selected income statement data**

(In millions except otherwise noted)

Three months ended March 31,	2007	2006	Change %
<b>Operating Revenues</b>			
Energy revenue	\$ 272	\$ 223	22%
Capacity revenue	83	58	43
Risk management activities	(29)	49	NA
Other revenues	16	62	(74)
Total operating revenues	342	392	(13)
<b>Operating Costs and Expenses</b>			
Cost of energy	162	126	29
Other operating expenses	103	93	11
Depreciation and amortization	25	22	14
<b>Operating Income</b>	<b>\$ 52</b>	<b>\$ 150</b>	<b>(65)</b>
MWh sold (in thousands)	3,614	3,261	11
MWh generated (in thousands)	3,614	3,261	11
<b>Business Metrics</b>			
Average on-peak market power prices (\$/MWh)	78.46	72.99	7
Cooling Degree Days, or CDDs(a)	—	—	—
CDD's 30 year rolling average	—	—	—
Heating Degree Days, or HDDs(a)	3,071	2,741	12
HDD's 30 year rolling average	3,094	3,094	—

(a) National Oceanic and Atmospheric Administration-Climate Prediction Center — A CDD represents the number of degrees that the mean temperature for a particular day is above 65 degrees Fahrenheit in each region. An HDD represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit in each region. The CDDs/HDDs for a period of time are calculated by adding the CDDs/HDDs for each day during the period.

**Operating Income**

Operating income decreased by \$98 million for the three months ended March 31, 2007, compared to 2006. This was due to:

- o *Lower operating revenues* — of approximately \$50 million primarily related to losses in risk management activities of \$29 million and lower sales of emission allowances of approximately \$61 million.
- o *Higher cost of energy* — of approximately \$36 million due to increased generation at the regions oil-fired and natural-gas-fired plants in New York City.
- o *Higher other operating expenses* — of approximately \$10 million due to higher wage and benefit rates as a result of merit increases and rising benefit costs, as well as higher major maintenance expense due to scheduled outage repairs.

**Operating Revenues**

Operating revenues decreased by \$50 million for the three months ended March 31, 2007, compared to 2006, due to:

- o *Losses related to risk management activities* — losses of approximately \$29 million during 2007 compared to \$49 million in gains in 2006. The \$29 million loss includes a \$58 million unrealized loss related to the changes in fair value of forward derivative positions not qualifying for hedge accounting treatment as compared to a \$50 million gain in the same period in 2006 of which \$26 million was related to economic hedges. This \$58 million loss includes a \$35 million loss from the roll-off in the quarter of forward positions existing at end of fiscal year 2006. Risk management activity results in the first quarter 2007 included \$29 million in realized gains on settled power positions.
- o *Reduction in other revenues* — of \$46 million of which approximately \$61 million was due to reduced activity in the trading of emission allowance following both an increase in generation and a 59% decrease in market prices offset by higher natural gas sales of approximately \$19 million.

## [Table of Contents](#)

These were partially offset by:

- o *Higher energy revenues* — of \$49 million of which \$24 million was due to an 11% increase in generation led by the region's oil-fired assets whose generation increased by 176 thousand MWh compared to 2006 and \$25 million was due to a 7% increase in average power prices. These increases were due to a relatively colder winter during 2007 compared to 2006 as demonstrated by a 12% increase in HDDs in the region.
- o *Higher capacity revenues* — by \$25 million - \$12 million of the increase is from the NEPOOL assets and \$12 million is from New York Rest of State assets. The NEPOOL assets benefited from the new LFRM market and transition capacity market, both introduced in the fourth quarter of 2006. During the three months ended March 31, 2007, capacity revenues increased by \$9 million from the LFRM market and \$7 million from transition capacity payments, offset by a reduction of \$4 million due to the expiration of an RMR agreement for our Devon plant on December 31, 2006. New York Rest of State capacity prices increased by 174% during the first quarter of 2007 compared to 2006 as load requirement growth increased demand for capacity, coupled with the impact from the new capacity markets in NEPOOL which reduced exported supply into the New York market that further improved the supply/demand dynamics.

### **Cost of Energy**

Cost of energy increased by \$36 million for the three months ended March 31, 2007 compared to 2006, primarily due to:

- o *Higher oil costs* — of approximately \$33 million due to an 11% increase in generation of which 176 thousand MWh was at the region's oil-fired plants.
- o *Higher natural gas costs* — of approximately \$15 million due to higher natural gas prices and transportation costs.

This was partially offset by:

- o *Lower emission amortization* — of approximately \$8 million in amortization expense due to a reduction in the value of the Company's emission allowances.
- o *Lower coal costs* — of \$4 million due to lower average cost of generation from the region's coal-fired assets as a result of lower average prices of purchased coal.

### **Other Operating Expenses**

Other operating expenses increased by \$10 million for the three months ended March 31, 2007 compared to 2006, primarily due to:

- o *Higher wage and benefit costs* — of approximately \$4 million due to higher wages and benefit rates as a result of merit increases and rising benefit costs as well as additional overtime.
- o *Higher major maintenance expense* — of approximately \$2 million due to increased outage repairs.
- o *Higher corporate allocations* — of approximately \$2 million.

**South Central Region**

For a discussion of the business profile of the South Central region, see pages 26-27 of NRG Energy, Inc.'s 2006 Annual Report on Form 10-K.

**Selected income statement data**

(In millions except otherwise noted) Three months ended March 31,	2007	2006	Change %
<b>Operating Revenues</b>			
Energy revenue	\$ 87	\$ 109	(20)%
Capacity revenue	52	48	(8)
Risk management activities	6	5	20
Contract amortization	5	4	25
Other revenues	—	6	NA
<b>Total operating revenues</b>	<b>150</b>	<b>172</b>	<b>(13)</b>
<b>Operating Costs and Expenses</b>			
Cost of energy	81	90	(10)
Other operating expenses	30	22	36
Depreciation and amortization	17	16	6
<b>Operating Income</b>	<b>\$ 23</b>	<b>\$ 44</b>	<b>(48)</b>
MWh sold (in thousands)	2,826	2,874	(2)
MWh generated (in thousands)	2,708	2,800	(3)
<b>Business Metrics</b>			
Average on-peak market power prices (\$/MWh)	57.62	54.05	7
Cooling Degree Days, or CDDs(a)	102	114	(11)
CDD's 30 year rolling average	80	80	—
Heating Degree Days, or HDDs(a)	1,203	946	27
HDD's 30 year rolling average	1,270	1,270	—

(a) National Oceanic and Atmospheric Administration-Climate Prediction Center — A CDD represents the number of degrees that the mean temperature for a particular day is above 65 degrees Fahrenheit in each region. An HDD represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit in each region. The CDDs/HDDs for a period of time are calculated by adding the CDDs/HDDs for each day during the period.

**Operating Income**

Operating income for the South Central region declined by \$21 million for the first quarter 2007 compared to the same period in 2006. Increased demand from the region's load customers combined with lower availability of the region's Big Cajun II coal plant reduced the MWh's available for sale to the merchant market.

**Operating Revenues**

Operating revenues decreased by \$22 million for the three months ended March 31, 2007, compared to 2006, due to:

- o *Lower merchant energy revenues* — of approximately \$38 million driven by increased demand from the region's load customers combined with lower availability of the region's Big Cajun II coal plant reduced the MWh's available for sale to the merchant market.
- o *Lower emission sales* — due to generation needs and a 59% reduction in market prices, the region did not monetize any of the region's bank emission allowances during the first quarter ended 2007.

This decrease was offset by:

- o *Higher contract energy revenues* — of approximately \$17 million, due to higher demand from the region's contract customers of approximately 343 thousand MWh following cooler weather during the first quarter 2007 as reflected by a 27% increase in HDDs compared to 2006.
- o *Higher capacity revenues* — of \$4 million due to a new summer peak set in August 2006 which increased cooperative contract rates.

## Table of Contents

### Cost of Energy

Cost of energy decreased by \$9 million for the three months ended March 31, 2007, compared to 2006, due to:

- o *Lower purchased power* — of approximately \$19 million due to the increased reliance on tolling agreements and lower average prices.

This was offset by:

- o *Higher coal and transportation costs* — of approximately \$7 million and higher transmission costs of approximately \$4 million. These increases were due to higher unit and contractual rate increases.

### Other Operating Expenses

Other operating expenses increased by \$8 million for the three months ended March 31, 2007, compared to 2006. This was due to Louisiana state franchise tax that increased by approximately \$6 million. This is because the state of Louisiana franchise tax is assessed based on the Company's total debt and equity that significantly increased following the acquisition of Texas Genco LLC.

### West Region

For a discussion of the business profile of the West region, see pages 28-29 of NRG Energy, Inc.'s 2006 Annual Report on Form 10-K.

### Selected income statement data

(In millions except otherwise noted)

Three months ended March 31,	2007	2006 (b)	Change %
<b>Operating Revenues</b>			
Energy revenue	\$ 1	\$ —	NA
Capacity revenue	26	—	NA
Risk management activities	—	—	—
Other revenues	1	1	—
Total operating revenues	28	1	NA
<b>Operating Costs and Expenses</b>			
Cost of energy	1	—	NA
Other operating expenses	20	3	567
Depreciation and amortization	—	—	—
<b>Operating Income</b>	\$ 7	\$ (2)	NA
MWh sold (in thousands)	45	294	(85)
MWh generated (in thousands)	81	294	(72)
<b>Business Metrics</b>			
Average on-peak market power prices (\$/MWh)	58.68	56.66	4
Cooling Degree Days, or CDDs(a)	2	—	NA
CDD's 30 year rolling average	10	7	43
Heating Degree Days, or HDDs(a)	1,586	1,434	11
HDD's 30 year rolling average	1,419	1,419	—

(a) National Oceanic and Atmospheric Administration-Climate Prediction Center — A CDD represents the number of degrees that the mean temperature for a particular day is above 65 degrees Fahrenheit in each region. An HDD represents the number of degrees that the mean temperature for a particular day is below 65 degrees Fahrenheit in each region. The CDDs/HDDs for a period of time are calculated by adding the CDDs/HDDs for each day during the period.

(b) Does not include WCP results of operations.

### Operating Income

Operating income increased by \$9 million for the three months ended March 31, 2007, compared to 2006. This was due to:

- o The acquisition of WCP on March 31, 2006, operating income during the first quarter 2007 increased by \$6 million from —
  - A \$10 million increase due to inclusion of WCP results that include the favorable impact from the new tolling agreements at the Encina and El Segundo plants.
  - Offset by \$4 million of expenses related to development costs for the regions repowering projects and G&A corporate allocations.
- o The sale of Red Bluff and Chowchilla II plants on January 3, 2007 — during the three months ended March 31, 2006, these operations generated an operating loss of \$2 million.

## Liquidity and Capital Resources

### Liquidity Position

As of March 31, 2007, NRG's liquidity was approximately \$2.1 billion and included approximately \$704 million of unrestricted and restricted cash. NRG's liquidity also included \$822 million of borrowing capacity under the Company's revolving line of credit, and \$546 million of availability under the Company's letter of credit facility. As of December 31, 2006, NRG's liquidity was approximately \$2.2 billion and included approximately \$839 million of unrestricted and restricted cash. NRG's liquidity also included \$855 million of borrowing capacity under the Company's revolving credit facility, and \$533 million of availability under the Company's letter of credit facility.

Management believes that these amounts and cash flows from operations will be adequate to finance capital expenditures, to fund dividends to NRG's preferred shareholders and other liquidity commitments. Management continues to regularly monitor the company's ability to finance the needs of its operating, financing and investing activity in a manner consistent with its intention to maintain a steady debt to equity ratio in the range of 45-60%.

### Capital Allocation Program

NRG continued Phase II of the Company's Capital Allocation Program during the first quarter 2007 with the repurchase of an additional 1,500,000 shares of the Company's common stock for approximately \$103 million. NRG expects to complete Phase II of the Capital Allocation Program during 2007 with funds generated from operations of approximately \$165 million.

### Second Lien Structure

NRG has granted second priority liens to certain counterparties on substantially all of the Company's assets in the United States in order to secure obligations, which are primarily long-term in nature under certain power sale agreements and related contracts. NRG uses the second lien structure to reduce the amount of cash collateral and letters of credit that it may otherwise be required to post from time to time to support its obligations under these agreements. Within the second lien structure, the Company can hedge up to 80% of its baseload capacity and 10% of its non-baseload assets with these counterparties. As of March 31, 2007 and April 27, 2007, the net discounted exposure on the agreements and hedges that were subject to the second lien structure was approximately \$90 million and \$193 million, respectively.

The following table summarizes the amount of MWs hedged against the Company's baseload assets and as a percentage relative to the Company's forecasted baseload capacity under the second lien structure as of April 27, 2007:

Equivalent Net Sales secured by Second Lien Structure <sup>(a)</sup>	2007	2008	2009	2010	2011	2012
In MW	3,518	3,400	3,651	2,949	3,201	575
As a percentage of total forecasted baseload capacity	57%	57%	62%	50%	55%	12%

(a) Equivalent Net Sales include natural gas swaps converted using a weighted average heat rate by region.

(b) 2007 MW value consists of May through December positions only.

### Capital Expenditures

Capital expenditures were \$107 million and \$35 million for the three months ending March 31, 2007 and 2006, respectively, due to the following:

- o *Texas* — capital expenditures in the Texas region was approximately \$64 million due to:
  - *STP* - \$38 million related to nuclear fuel and capitalized plant improvements
  - *Fossil plants* — the remaining balance spent on low pressure turbine rotor replacement at the W.A. Parish and Limestone facilities, combustion system replacement at T.H. Wharton plant and repairs at the Jewett mine
- o *Northeast* — capital expenditures in the Northeast region was approximately \$17 million due to:
  - *Huntley and Dunkirk* — approximately \$8 million was related to bag house emission projects at these two facilities.
  - *Other Northeast facilities* — General plant improvements

## Table of Contents

- o *West* — capital expenditures in the West region was approximately \$22 million due to the Long Beach Generating station repowering project.

The following table summarizes NRG's capital expenditure forecast, by region, for the full year of 2007 of approximately \$450 million, inclusive of the \$107 million spend during the first quarter 2007 capital spend:

(In millions)	Maintenance	Environmental	Development	Total
Northeast	\$ 41	\$ 112	\$ 7	\$ 160
Texas	143	4	—	147
South Central	28	27	—	55
West	4	1	73	78
Other	10	—	—	10
Total	\$ 226	\$ 144	\$ 80	\$ 450
Capital expenditures through March 31, 2007	74	11	22	107
Remaining capital expenditures for 2007	\$ 152	\$ 133	\$ 58	\$ 343

NRG anticipates funding these capital project with funds generated from operating activities.

### NOL's, Deferred Tax Assets and Uncertain Tax Benefits

As of March 31, 2007, the Company has U.S. domestic net operating loss carryforwards of \$70 million. In addition to this amount, the Company has \$712 million of tax effected unrecognized tax benefits which relate primarily to net operating losses for tax return purposes which have been classified as capital loss carryforwards for financial statements purposes for which a full valuation allowance has been established. As a result of our tax position and based on current forecasts, future U.S. domestic income tax payments will be minimal through mid year 2009 as these unrecognized tax benefits will be utilized for tax return purposes.

However, as these positions remain uncertain, the Company may recognize a non current liability of up to \$712 million until resolution with the related taxing authorities. As we move forward, the Company will continue to accrue for such uncertain tax benefits and regular income tax payments are contingent upon their final resolution.

### Cash Flow Discussion

NRG obtains cash from operations, proceeds from the sale of certain assets and the proceeds from the issuance of debt, preferred stock and common stock. NRG uses these funds to finance operations, make interest payments, repurchase its common stock, service debt obligations, finance capital expenditures, and meet other cash and liquidity needs.

The following table reflects the changes in cash flows for the comparative years; all cash flow categories include the cash flows from both continuing operations and discontinued operations:

(In millions)	2007	2006
Three months ended March 31,		
Net cash provided by operating activities	\$ 106	\$ 342
Net cash used in investing activities	(112)	(4,202)
Net cash provided/(used) by financing activities	\$ (136)	\$ 4,171

### Net Cash Provided By Operating Activities

For the three months ended March 31, 2007, net cash provided by operating activities decreased by \$236 million compared to the three months ended March 31, 2006. This was due to the following reasons:

- o Due to the upward shift of the forward price curves, NRG's cash collateral deposits in support of derivative contracts increased by \$120 million for the three months ended March 31, 2007, compared to a decrease of \$230 million for the three months ended March 31, 2006, a difference of \$350 million. As of March 31, 2007, NRG had a net cash collateral on deposit of \$66 million;
- o NRG's activity for the three months ended March 31, 2007, resulted in a decrease of \$114 million in working capital compared to an increase in working capital for the three months ended March 31, 2006, of \$15 million, a difference of \$129 million. This was due to the following reasons:
  - Capacity revenues related to PUCT mandated auctions are paid a month in advance, as a result of a reduction in such auctions, cash receipts decreased by \$52 million during the three months ended March 31, 2007 compared to 2006.
  - \$32 million related to payment of property taxes in Texas paid in January 2007.
  - \$16 million of payments related to a large vesting of equity compensation compared to 2006.
  - \$31 million due to the receipt of trade receivables related to sales prior to the acquisition of Texas Genco LLC, were excluded from working capital as they were an increase to the purchase price.

## [Table of Contents](#)

### *Net Cash Provided By Investing Activities*

For the three months ended March 31, 2007, net cash used in investing activities was approximately \$4.1 billion less than the three months ended March 31, 2006. NRG's decrease in use of cash was due to:

- o During the first quarter 2006, NRG acquired Texas Genco LLC for approximately \$6.2 billion that included the issuance of stock of \$1.7 billion and a net cash payment of approximately \$4.3 billion (net of cash on hand of \$238 million);
- o NRG's capital expenditures increased by \$72 million during the three months ended March 31, 2007, as compared to 2006, with the increase due to \$38 million spent on nuclear fuel and capitalized improvements at the STP plant and \$22 million for *Repowering NRG* at the Company's Long Beach facility.

### *Net Cash Provided/(Used) in Financing Activities*

For the three months ended March 31, 2007, net cash from financing activities decreased by approximately \$4.3 billion, as compared to 2006. The decrease was primarily due to the financing activities related to the purchase of Texas Genco LLC during 2006:

- o During the first quarter 2006, NRG acquired Texas Genco LLC. As part of the acquisition, NRG refinanced the Company's outstanding debt as well as Texas Genco LLC's outstanding debt, and also issued new debt, preferred stock and common stock to fund the acquisition:
  - Total debt repayments were \$4.6 billion — \$1.9 billion from NRG debt and \$2.7 billion of Texas Genco LLC debt;
  - Total proceeds from debt issued was \$7.2 billion — \$3.6 billion of unsecured notes and \$3.6 billion for a senior secured facility, including a \$1.0 billion Revolving Credit Facility, and a \$1.0 billion synthetic Letter of Credit Facility;
  - Total proceeds from stock issued of approximately \$1.5 billion — net proceeds of \$986 million from issuing approximately 21 million shares of common stock and net proceeds of \$486 million from issuing 2 million shares of the Company's 5.75% Preferred Stock.
- o In 2006, NRG initiated a Capital Allocation Program executed in two phases. As part of Phase II, NRG repurchased an additional 1,500,000 shares of the Company's common stock for approximately \$103 million during the first quarter 2007.

## New and On-going Company Initiatives

### *Comprehensive Capital Allocation Plan*

The Company's capital allocation strategy includes (i) the repayment of debt, (ii) the return of capital to shareholders, and (iii) the investment of capital into the business. With the establishment of the Company's longer-dated hedge profile, the variability of gross margins has been substantially reduced. Accordingly, for each of the planned debt repayment and return of capital to shareholders, the Company is migrating towards a structure that provides for both a fixed and a variable component. In November 2006, the Company modified its Senior Credit Facility to include, among other things, an annual mandatory prepayment based on the current year's excess cash flow — the fixed component — while retaining the right to voluntarily prepay all or a portion of the Company's outstanding Term B loan at no penalty — the variable component. The Company also has announced plans for a Comprehensive Capital Allocation Plan that will support a similar fixed and variable structure for the return of capital to shareholders. If implemented, this plan will provide the Company with the ability (i) to initiate an annual cash dividend — the fixed component — and (ii) to continue the Company's historical program of common share repurchases — the variable component. The Company's total annual targeted return of capital to shareholders is expected to be approximately 3% of NRG's current market capitalization. Once completed, the Company expects to commence payment of quarterly cash dividends in the first quarter 2008, subject to approval by the Company's Board of Directors and other conditions including availability of cash resources. In addition, the Company plans to complete Phase II of its Capital Allocation Program announced in November 2006 with the repurchase of approximately \$165 million of common stock during 2007.

During May 2007, the Company plans to seek several amendments to its Senior Credit Facility. The amendments include:

- Lower pricing for NRG's Term B loan and synthetic Letter of Credit facility;
- A provision that enables up to \$150 million annually for the payment of a recurring cash dividend on the Company's common stock;
- Reduction in the synthetic Letter of Credit facility from \$1.5 billion to \$1.3 billion;
- Ability to utilize a first lien position to support commercial hedges;
- Additional flexibility for *Repowering* NRG projects; and
- A commitment from lenders that effectively converts one-third of existing Term B debt (approximately \$1 billion in the aggregate) to a holding company level planned for later this year.

To improve the efficiency of its capital allocation, the Company is planning to implement a holding company structure in the second half of 2007. Under the planned structure:

- NRG will become a wholly-owned operating subsidiary, or Opco, of a newly created holding company, or Holdco, and the shareholders of the Company will become shareholders of Holdco;
- Holdco will borrow up to \$1 billion in new Term B loan financing from its existing bank group; and
- Holdco will use the net proceeds to make a capital contribution to Opco, which Opco in turn will use for the prepayment of its Term B debt under the existing Senior Credit Facility.

Upon completion of the above, the Company's restricted payments capacity under its unsecured indenture will increase by an amount equal to the capital contribution from Holdco to Opco, thereby allowing a more efficient allocation of capital within the Company. On May 1, 2007, the Company entered into a commitment with certain financial institutions to backstop the \$1 billion financing planned for the Holdco level. Implementation of the Holdco structure described above is contingent upon a number of conditions being satisfied, including receiving certain regulatory approvals. While there can be no assurance that all of these conditions will be satisfied, the Company believes that the Holdco structure will be implemented by the end of 2007. The Company expects that the consummation of Holdco structure and amendments to the Senior Credit Facility will result in a non-cash charge to earnings due to the write-off of unamortized deferred finance costs at NRG, and estimates that this non-cash charge could range from \$15 million to \$80 million.



[Table of Contents](#)

**Repowering NRG**

*Plants under Development*

Most of the originally planned *Repowering NRG* projects continue in the development phase. During the first quarter 2007, many *Repowering NRG* projects made progress in permitting, site planning and other critical development activities. Other *Repowering NRG* projects, including projects in Connecticut and in Delaware are less likely to move forward as they have not been successful to date in winning off-take mandates offered as part of requests for proposals sponsored by these states.

*Plants under Construction*

260 MW of repowered gas-fueled capacity at NRG's Long Beach Generating Station remains on schedule to be online by August 1, 2007 to support the anticipated summer peak on the Southern California Edison and California Independent System Operator systems. Total capital expenditures for the project are expected to be approximately \$73 million, with \$22 million incurred during the first quarter 2007. In addition to the Long Beach project, the Company is proceeding with the repowering project at the Cos Cob site in Connecticut. This project will add 40 MW of peaking capacity at a cost of \$18 million.

*Development Costs*

During the first quarter 2007, NRG incurred approximately \$23 million in costs associated with development efforts across all segments of the Company, but predominately in Texas to support the planned expansion of the STP nuclear generating station as the Company prepares for the submission of a combined operating license application.

**Stock Dividend**

On April 25, 2007, NRG's Board of Directors approved a two-for-one stock split of the Company's outstanding shares of common stock to be effected in the form of a stock dividend. The stock split will entitle each stockholder of record at the close of business on May 22, 2007 to receive one additional share for every outstanding share of common stock held. The additional shares resulting from the stock split are expected to be distributed by the Company's transfer agent on or about May 31, 2007. Upon the completion of the stock split, NRG will have approximately 242 million shares of common stock outstanding.

## Off-Balance Sheet Arrangements

### *Obligations Under Certain Guarantee Contracts*

NRG and certain of its subsidiaries enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include financial and performance guarantees, stand-by letters of credit, debt guarantees, surety bonds and indemnifications.

### *Retained or Contingent Interests*

NRG does not have any material retained or contingent interests in assets transferred to an unconsolidated entity.

### *Derivative Instrument obligations*

On August 11, 2005, NRG issued 3.625% Preferred Stock that included a conversion feature which is considered a derivative per FAS 133, as amended. Although it is considered a derivative, it is exempt from derivative accounting as it is excluded from the scope pursuant to paragraph 11(a) of FAS 133. As of March 31, 2007, based on the Company's stock price, the value of the payment for this embedded derivative would have been approximately \$49 million.

On October 13, 2006, NRG through its unrestricted wholly-owned subsidiaries NRG Common Stock Fund I, or CSF I, issued notes and preferred interests to a unit of Credit Suisse for the repurchase of NRG's common stock. Included in the contract was a conversion feature which is considered a derivative per FAS 133, as amended. Although it is considered a derivative, it is exempt from derivative accounting as it is excluded from the scope pursuant to paragraph 11(a) of FAS 133. As of March 31, 2007, based on the Company's stock price, the value of the payment for this embedded derivative would have been approximately \$24 million.

### *Obligations Arising Out of a Variable Interest in an Unconsolidated Entity*

*Variable interest in Equity investments* — As of March 31, 2007, NRG had not entered into any financing structure that was designed to be off-balance sheet that would create liquidity, financing or incremental market risk or credit risk to the Company. However, NRG has several 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. NRG's pro-rata share of non-recourse debt held by unconsolidated affiliates was approximately \$146 million as of March 31, 2007. This indebtedness may restrict the ability of these subsidiaries to issue dividends or distributions to NRG.

*Synthetic Letter of Credit Facility and Revolver Facility* — Under NRG's Amended Senior Credit Facility NRG entered into on November 21, 2006, the Company has a \$1.5 billion synthetic Letter of Credit Facility that is unfunded by NRG, and a \$1 billion senior Revolving Credit Facility. The synthetic Letter of Credit Facility is secured by a \$1.5 billion cash collateral deposit, held by Deutsche Bank AG, New York Branch, as the Issuing Bank. Under the synthetic Letter of Credit Facility, NRG is allowed to issue letters of credit to support the Company's obligations under commodity hedging or power purchase arrangements. In addition, NRG can issue up to \$300 million in unfunded letters of credit under the Company's Revolving Credit Facility for ongoing working capital requirements and for general corporate purposes, including acquisitions that are permitted under the Senior Credit Facility. In addition, NRG is permitted to issue additional letters of credit up to \$700 million under the Senior Credit Facility through another financial institution.

As of March 31, 2007, the Company had issued \$954 million in letters of credit under the Letter of Credit Facility. In addition, as of March 31, 2007, the Company had issued \$178 million in revolver letters of credit, a portion of which supports non-commercial letter of credit obligations.

### *Contractual Obligations and Commercial Commitments*

NRG has a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to the Company's capital expenditure programs, as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Also see Note 12 to the condensed consolidated financial statements of this Form 10-Q for a discussion of new commitments and contingencies that also include contractual obligations and commercial commitments that occurred during the first quarter 2007.

**Critical Accounting Policies and Estimates and Changes in Accounting Standards**

NRG's discussion and analysis of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 affect 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, NRG evaluates these estimates, utilizing historic experience, consultation with experts and other methods the Company considers reasonable. In any event, actual results may differ substantially from the Company's estimates. Any effects on the Company's 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.

### ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NRG is exposed to several market risks in the Company's normal business activities. Market risk is the potential loss that may result from market changes associated with the Company's merchant power generation or with an existing or forecasted financial or commodity transaction. The types of market risks the Company is exposed to are commodity price risk, interest rate risk and currency exchange risk. In order to manage these risks the Company uses various fixed-price forward purchase and sales contracts, futures and option contracts traded on the New York Mercantile Exchange, and swaps and options traded in the over-the-counter financial markets to:

- Manage and hedge fixed-price purchase and sales commitments;
- Manage and hedge exposure to variable rate debt obligations;
- Reduce exposure to the volatility of cash market prices; and
- Hedge fuel requirements for the Company's generating facilities.

#### *Commodity Price Risk*

Commodity price risks result from exposures to changes in spot prices, forward prices, volatility in commodities, and correlations between various commodities, such as natural gas, electricity, coal and oil. A number of factors influence the level and volatility of prices for energy commodities and related derivative products. These factors include:

- Seasonal, daily and hourly changes in demand;
- Extreme peak demands due to weather conditions;
- Available supply resources;
- Transportation availability and reliability within and between regions; and
- Changes in the nature and extent of federal and state regulations.

As part of NRG's overall portfolio, NRG manages the commodity price risk of the Company's merchant generation operations by entering into various derivative or non-derivative instruments to hedge the variability in future cash flows from forecasted sales of electricity and purchases of fuel. These instruments include forward purchase and sale contracts, futures and option contracts traded on the New York Mercantile Exchange, and swaps and options traded in the over-the-counter financial markets. The portion of forecasted transactions hedged may vary based upon management's assessment of market, weather, operation and other factors.

While some of the contracts the Company uses to manage risk represent commodities or instruments for which prices are available from external sources, other commodities and certain contracts are not actively traded and are valued using other pricing sources and modeling techniques to determine expected future market prices, contract quantities, or both. NRG uses the Company's best estimates to determine the fair value of commodity and derivative contracts held and sold. These estimates consider various factors, including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. However, it is likely that future market prices could vary from those used in recording mark-to-market derivative instrument valuation, and such variations could be material.

NRG measures the sensitivity of the Company's portfolio to potential changes in market prices using Value at Risk, or VAR. VAR is a statistical model that attempts to predict risk of loss based on market price volatility. Currently, the company estimates VAR using a Monte Carlo simulation based methodology. NRG's total portfolio includes mark-to-market and non mark-to-market energy assets and liabilities.

NRG uses a diversified VAR model to calculate an estimate of the potential loss in the fair value of the Company's energy assets and liabilities, which includes generation assets, load obligations, and bilateral physical and financial transactions. The key assumptions for the Company's diversified 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.

As of March 31, 2007, the VAR for NRG's commodity portfolio, including generation assets, load obligations and bilateral physical and financial transactions calculated using the diversified VAR model was \$22 million.

## [Table of Contents](#)

The following table summarizes average, maximum and minimum VAR for NRG for the three months ended March 31, 2007 and 2006. VAR for the three months ended March 31, 2006 does not include Texas since it was not integrated with the consolidated NRG portfolio.

VAR	2007	2006
As of March 31,	\$ 22	\$ 30
Average	26	33
Maximum	34	38
Minimum	22	27

Due to the inherent limitations of statistical measures such as VAR, the relative immaturity of the competitive markets for electricity and related derivatives, and the seasonality of changes in market prices, the VAR 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 VAR, and such changes could have a material impact on the Company's financial results.

In order to provide additional information for comparative purposes to NRG's peers, the Company also uses VAR to estimate of the potential loss of financial derivative instruments that are subject to mark-to-market accounting. These derivative instruments include transactions that were entered into for both asset management and trading purposes. The VAR for the financial derivative instruments calculated using the diversified VAR model as of March 31, 2007 for the entire term of these instruments entered into for both asset management and trading was approximately \$27 million.

### ***Interest Rate Risk***

NRG is exposed to fluctuations in interest rates through the Company's issuance of fixed rate and variable rate debt. Exposures 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 obligations when taking into account the combination of the variable rate debt and the interest rate derivative instrument. NRG's risk management policies allow the Company to reduce interest rate exposure from variable rate debt obligations.

In January 2006, the Company entered into a series of new interest rate swaps. These interest rate swaps became effective on February 15, 2006 and are intended to hedge the risk associated with floating interest rates. For each of the interest rate swaps, NRG pays its counterparty the equivalent of a fixed interest payment on a predetermined notional value, and NRG receives the equivalent of a floating interest payment based on 3-month LIBOR rate calculated on the same notional value. All interest rate swap payments by NRG and its counterparties are made quarterly, and the LIBOR is determined in advance of each interest period. While the notional value of each of the swaps does not vary over time, the swaps are designed to mature sequentially. The total notional amount of these swaps as of April 27, 2007 was \$2.0 billion.

As of March 31, 2007, the Company had various interest rate swap agreements with notional amounts totaling approximately \$2.7 billion. If the swaps had been discontinued on March 31, 2007, the Company would have owed the counter-parties approximately \$18 million. Based on the investment grade rating of the counter-parties, NRG believes that the Company's exposure to credit risk due to nonperformance by the counter-parties to the hedging contracts is insignificant.

NRG has both long and short-term debt instruments that subject the Company to the risk of loss associated with movements in market interest rates. As of March 31, 2007, a 100 basis point change in interest rates would result in a \$15 million change in interest expense on a rolling twelve month basis.

As of March 31, 2007, the fair value and the carrying amount of the Company's long-term debt was \$8.9 billion and \$8.8 billion, respectively. NRG estimates that a 1% decrease in market interest rates would have increased the fair value of the Company's long-term debt by \$530 million.

### ***Currency Exchange Risk***

NRG expects to continue to be subject to currency risks associated with foreign denominated distributions from the Company's international investments. In the normal course of business, NRG may receive distributions denominated in the Euro, Australian Dollar and the Brazilian Real. NRG has 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

## [Table of Contents](#)

denominated distributions with currency forward and swap agreements with highly credit worthy financial institutions. The Company would expect to enter into similar transactions in the future if management deems it to be appropriate.

### **Liquidity Risk**

Liquidity risk arises from the general funding needs of NRG's activities and in the management of the Company's assets and liabilities. NRG's liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management, the Company seeks to preserve stable, reliable and cost-effective sources of funding. This enables the Company to replace maturing obligations when due and fund assets at appropriate maturities and rates. To accomplish this task, management uses a variety of liquidity risk measures that take into consideration market conditions, prevailing interest rates, liquidity needs, and the desired maturity profile of liabilities.

Based on a sensitivity analysis, a \$1 per MWh increase or increase in electricity prices across the term of the marginable contracts would cause a change in margin collateral outstanding of approximately \$55 million as of March 31, 2007. This analysis uses simplified assumptions and is calculated based on portfolio composition and margin-related contract provisions as of March 31, 2007.

### **Credit Risk**

Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties pursuant to the terms of their contractual obligations. The Company monitors and manages the credit risk of NRG and its subsidiaries through credit policies which include (i) an established credit approval process, (ii) a daily monitoring of counter-party credit limits, (iii) the use of credit mitigation measures such as margin, collateral, credit derivatives or prepayment arrangements, (iv) the use of payment netting agreements, and (v) the use of master netting agreements that allow for the netting of positive and negative exposures of various contracts associated with a single counterparty. Risks surrounding counterparty performance and credit could ultimately impact the amount and timing of expected cash flows. The Company has credit protection within various agreements to call on additional collateral support if and when necessary. As of March 31, 2007, NRG held collateral support of approximately \$292 million from counterparties.

A portion of NRG's credit risk is related to transactions that are recorded in the Company's consolidated Balance Sheet. These transactions primarily consist of open positions from the Company's marketing and risk management operation that are accounted for using mark-to-market accounting, as well as amounts owed by counterparties for transactions that settled but have not yet been paid.

The following table highlights the credit quality and exposures related to these activities as of March 31, 2007:

(In millions, except ratios) Credit Exposure	Exposure Before Collateral	Collateral	Net Exposure
Investment grade	\$ 1,200	\$ 347	\$ 853
Non-investment grade	73	51	22
Not rated	172	20	152
Total	\$ 1,445	\$ 418	\$ 1,027
Investment grade	83%	83%	83%
Non-investment grade	5	12	2
Not rated	12%	5%	15%

Additionally, the Company has concentrations of suppliers and customers among coal suppliers, electric utilities, energy marketing and trading companies and regional transmission operators. These concentrations of counterparties may impact NRG's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory and other conditions.

NRG's exposure to significant counterparties greater than 10% of the net exposure of approximately \$1 billion was approximately \$622 million as of March 31, 2007. NRG does not anticipate any material adverse effect on the Company's financial position or results of operations as a result of nonperformance by any of NRG's counterparties.

### **Fair Value of Derivative Instruments**

NRG may enter into long-term power sales contracts, fuel purchase contracts and other energy-related financial instruments to

[Table of Contents](#)

mitigate variability in earnings due to fluctuations in spot market prices, to hedge fuel requirements at generation facilities and protect fuel inventories. In addition, in order to mitigate interest rate risk associated with the issuance of the Company's variable rate and fixed rate debt, NRG enters into interest rate swap agreements.

NRG's trading activities include contracts entered into to profit from market price changes as opposed to hedging an exposure, and are subject to limits in accordance with the Company's risk management policy. These contracts are recognized on the balance sheet at fair value and changes in the fair value of these derivative financial instruments are recognized in earnings. These trading activities are a complement to NRG's energy marketing portfolio.

The tables below disclose the activities that include non-exchange traded contracts accounted for at fair value. Specifically, these tables disaggregate realized and unrealized changes in fair value; identify changes in fair value attributable to changes in valuation techniques; disaggregate estimated fair values at March 31, 2007, based on whether fair values are determined by quoted market prices or more subjective means; and indicate the maturities of contracts at March 31, 2007:

<b>Derivative Activity Gains/(Losses)</b>	<b>(In millions)</b>
Fair value of contracts at December 31, 2006	\$ 354
Contracts realized or otherwise settled during the period	(28)
Changes in fair value	(527)
Fair value of contracts at March 31, 2007	\$ (201)

<b>Sources of Fair Value Gains/(Losses) (In millions)</b>	<b>Fair Value of Contracts as of March 31, 2007</b>				
	<b>Maturity Less than 1 Year</b>	<b>Maturity 1-3 Years</b>	<b>Maturity 4-5 Years</b>	<b>Maturity in excess of 5 Years</b>	<b>Total Fair Value</b>
Prices actively quoted	\$ (45)	\$ 2	\$ —	\$ —	\$ (43)
Prices provided by other external sources	74	(51)	(144)	(37)	(158)
Prices provided by models and other valuation methods	1	(1)	—	—	—
Total	\$ 30	\$ (50)	\$ (144)	\$ (37)	\$ (201)

#### ITEM 4 — CONTROLS AND PROCEDURES

Under the supervision and with the participation of Company's management, including the principal executive officer, principal financial officer and principal accounting officer, NRG conducted an evaluation of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, NRG's principal executive officer, principal financial officer and principal accounting officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report. There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II — OTHER INFORMATION****ITEM 1 — LEGAL PROCEEDINGS**

For a discussion of material legal proceedings in which NRG was involved through March 31, 2007, see Note 12 to the condensed consolidated financial statements of this Form 10-Q.

**ITEM 1A — RISK FACTORS**

Information regarding risk factors appears in Part II, Item 1A, Risk Factors in NRG Energy, Inc.'s 2006 Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Due to recent significant events at NRG, the following risk factor has been identified:

*The Company may not have sufficient available cash to pay cash dividends each quarter.*

NRG has never paid a cash dividend and has not had a policy with regard to the payment of cash dividends with respect to its common stock. In April 2007, the Company's Board of Directors declared its intention to begin paying quarterly cash dividends to holders of NRG common stock, beginning in the first quarter 2008. The payment of cash dividends in the future will depend on a number of factors, including, NRG's future financial performance, the Company's available cash resources and the cash requirements of its business, state corporate law restrictions and, possibly the consents of third parties, such as the lenders under the Company's Senior Credit Facility. In addition, the payment of each cash dividend and the amount of such dividends are subject to approval by the Company's Board of Directors. As a result, there can be no assurance that NRG will implement its plans with regards to the payment of quarterly cash dividends.

**ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Item 2(c) — Purchase of Equity securities by NRG

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Dollar value of shares that may be purchased under the plans or programs
<b>For the period ended April 27, 2007</b>				
January 1 — January 31	—	\$ —	—	\$ —
February 1 — February 28	—	—	—	—
March 1 — March 31	1,500,000	68.74	1,500,000	165,160,714
First Quarter Total	1,500,000	68.74	1,500,000	
<b>April 1 — April 27, 2007</b>				
Year-to-date	1,500,000	\$ 68.74	1,500,000	\$ 165,160,714

**ITEM 3 — DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4 — SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5 — OTHER INFORMATION**

None.



**ITEM 6 — EXHIBITS**

**Exhibits**

- 10.1\* Amended and Restated NRG Energy, Inc. Long-Term Incentive Plan, dated April 25, 2007, filed herewith.
- 10.2\* NRG Energy, Inc. Executive and Key Management Change-in-Control and General Severance Agreement, dated April 25, 2007, filed herewith.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.3 Certification of Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 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, filed herewith.

---

\* Exhibit relates to compensation arrangements.

**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 W. CRANE

David W. Crane,  
*Chief Executive Officer*

/s/ ROBERT C. FLEXON

Robert C. Flexon,  
*Chief Financial Officer*  
*(Principal Financial Officer)*

/s/ CAROLYN J. BURKE

Carolyn J. Burke,  
*Controller*  
*(Principal Accounting Officer)*

Date: May 2, 2007

**EXHIBIT INDEX**

**Exhibits**

- 10.1\* Amended and Restated NRG Energy, Inc. Long-Term Incentive Plan, dated April 25, 2007, filed herewith.
- 10.2\* NRG Energy, Inc. Executive and Key Management Change-in-Control and General Severance Agreement, dated April 25, 2007, filed herewith.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.3 Certification of Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 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, filed herewith.

---

\* Exhibit relates to compensation arrangements.

NRG ENERGY, INC.  
AMENDED AND RESTATED LONG-TERM INCENTIVE PLAN

(As Amended and Restated April 25, 2007)

1. Purpose.

This plan shall be known as the NRG Energy, Inc. Long-Term Incentive Plan (the "Plan"). The purpose of the Plan shall be to promote the long-term growth and profitability of NRG Energy, Inc., a Delaware corporation (the "Company"), and its Subsidiaries by (i) providing certain directors, officers and employees of, and certain other individuals who perform services for, or to whom an offer of employment has been extended by, the Company and its Subsidiaries with incentives to maximize shareholder value and otherwise contribute to the success of the Company and (ii) enabling the Company to attract, retain and reward the best available persons for positions of responsibility. Grants of Incentive Stock Options or Non-qualified Stock Options, stock appreciation rights ("SARs"), either alone or in tandem with options, restricted stock, restricted stock units, performance awards, deferred stock units or any combination of the foregoing (collectively, the "Awards") may be made under the Plan. Notwithstanding any provision of the Plan, to the extent that any Award would be subject to Section 409A of the Code, no such Award may be granted if it would fail to comply with the requirements set forth in Section 409A of the Code and any regulations or guidance promulgated thereunder.

2. Definitions.

(a) "Board" means the board of directors of the Company.

(b) "Cause", unless otherwise defined in a Participant's Grant Agreement or in a Participant's written employment arrangements with the Company or any of its Subsidiaries in effect on the date of grant (as amended from time to time thereafter), means the occurrence of one or more of the following events:

(i) Conviction of, or agreement to a plea of nolo contendere to, a felony, or any crime or offense lesser than a felony involving the property of the Company or a Subsidiary; or

(ii) Conduct that has caused demonstrable and serious injury to the Company or a Subsidiary, monetary or otherwise; or

(iii) Willful refusal to perform or substantial disregard of duties properly assigned, as determined by the Company; or

(iv) Breach of duty of loyalty to the Company or a Subsidiary or other act of fraud or dishonesty with respect to the Company or a Subsidiary; or

---

(v) Violation of the Company's code of conduct.

The definition of Cause set forth in a Participant's Grant Agreement shall control if such definition is different from the definition of Cause set forth in a Participant's written employment arrangements with the Company or any of its Subsidiaries.

(c) "Change in Control", unless otherwise defined in a Participant's Grant Agreement, means the occurrence of one of the following events:

(i) Any "person" (as that term is used in Sections 13 and 14(d)(2) of the Exchange Act or any successors thereto) becomes the "beneficial owner" (as that term is used in Section 13(d) of the Exchange Act or any successor thereto), directly or indirectly, of 50% or more of the Company's capital stock entitled to vote in the election of directors, excluding any "person" who becomes a "beneficial owner" in connection with a Business Combination (as defined in paragraph (iii) below) which does not constitute a Change in Control under said paragraph (iii); or

(ii) Persons who on the effective date of the plan of reorganization of the Company (the "Commencement Date") constitute the Board (the "Incumbent Directors") cease for any reason, including without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority thereof; provided that, any person becoming a director of the Company subsequent to the Commencement Date shall be considered an Incumbent Director if such person's election or nomination for election was approved by a vote of at least two-thirds (2/3) of the Incumbent Directors; but provided further that, any such person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a "person" (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of outstanding voting securities of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the company resulting from such Business Combination (including, without limitation, a company which, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities of the Company; or

(iv) The shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.

(d) “Code” means the Internal Revenue Code of 1986, as amended.

(e) “Committee” means the Compensation Committee of the Board or such other committee which shall consist solely of two or more members of the Board, each of whom is an “outside director” within the meaning of Treasury Regulation §1.162-27(e)(3); provided that, if for any reason the Committee shall not have been appointed by the Board to administer the Plan, all authority and duties of the Committee under the Plan shall be vested in and exercised by the Board, and the term “Committee” shall be deemed to mean the Board for all purposes herein.

(f) “Common Stock” means the Common Stock, par value \$0.01 per share, of the Company, and any other shares into which such stock may be changed by reason of a recapitalization, reorganization, merger, consolidation or any other change in the corporate structure or capital stock of the Company.

(g) “Disability”, unless otherwise defined in a Participant’s Grant Agreement, means a disability that would entitle an eligible Participant to payment of monthly disability payments under any Company long-term disability plan or as otherwise determined by the Committee.

(h) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(i) “Fair Market Value” of a share of Common Stock of the Company means, as of the date in question, and except as otherwise provided in any Grant Agreement entered into pursuant to agreements in effect as of the Commencement Date, the officially-quoted closing selling price of the stock (or if no selling price is quoted, the bid price) on the principal securities exchange on which the Common Stock is then listed for trading (including for this purpose the Nasdaq National Market) (the “Market”) for the applicable trading day or, if the Common Stock is not then listed or quoted in the Market, the Fair Market Value shall be the fair value of the Common Stock determined in good faith by the Board and, in the case of an Incentive Stock Option, in accordance with Section 422 of the Code; provided, however, that when shares received upon exercise of an option are immediately sold in the open market, the net sale price received may be used to determine the Fair Market Value of any shares used to pay the exercise price or applicable withholding taxes and to compute the withholding taxes.

(j) “Family Member” has the meaning given to such term in General Instructions A.1(a)(5) to Form S-8 under the Securities Act of 1933, as amended, and any successor thereto.

(k) “Grant Agreement” means the written agreement that each Participant to whom an Award is made under the Plan is required to enter into with the Company containing the terms and conditions of such grant as are determined by the Committee and consistent with the Plan.

(l) “Incentive Stock Option” means an option conforming to the requirements of Section 422 of the Code and any successor thereto.

(m) “Non-qualified Stock Option” means any stock option other than an Incentive Stock Option.

(n) “Participant” means any director, officer or employee of, or other individual performing services for, or to whom an offer of employment has been extended by, the Company or any Subsidiary who has been selected by the Committee to participate in the Plan (including a Participant located outside the United States).

(o) “Retirement”, (i) for any non-director, unless otherwise determined by the Committee, means (A) termination of service as a non-director after at least 10 years of service by such non-director and (B) attaining at least 55 years of age, and (ii) for any director, unless otherwise determined by the Committee, means termination of service as a director after at least five years of Board service by such director.

(p) “Subsidiary” means a corporation or other entity of which outstanding shares or ownership interests representing 50% or more of the combined voting power of such corporation or other entity entitled to elect the management thereof, or such lesser percentage as may be approved by the Committee, are owned directly or indirectly by the Company.

### 3. Administration.

The Plan shall be administered by the Committee. In no event, however, shall the Committee modify the distribution terms in any Award or Grant Agreement that has a feature for the deferral of compensation if such modification would result in taxes, additional interest and/or penalties pursuant to Code Section 409A. Subject to the provisions of the Plan, the Committee shall be authorized to (i) select persons to participate in the Plan, (ii) determine the form and substance of grants made under the Plan to each Participant, and the conditions and restrictions, if any, subject to which such grants will be made, (iii) determine the form and substance of the Grant Agreements reflecting the terms and conditions of each grant made under the Plan, (iv) certify that the conditions and restrictions applicable to any grant have been met, (v) modify the terms of grants made under the Plan, (vi) interpret the Plan and Grant Agreements entered into under the Plan, (vii) determine the duration and purposes for leaves of absence which may be granted to a Participant on an individual basis without constituting a termination of employment or services for purposes of the Plan, (viii) make any adjustments necessary or desirable in connection with grants made under the Plan to eligible Participants located outside the United States, (ix) adopt, amend, or rescind rules and regulations for the administration of the Plan, including, but not limited to, correcting any defect or supplying any omission, or reconciling any inconsistency in the Plan or in any Grant Agreement, in the manner and to the extent it shall deem necessary or advisable, including so that the Plan and the operation of the Plan complies with Rule 16b-3 under the Exchange Act, the Code to the extent applicable and other applicable law and make such other determinations for carrying out the Plan as it may deem appropriate, and (x) exercise such powers and perform such acts as are deemed necessary or advisable to promote the best interests of the Company with respect to the Plan. Notwithstanding the foregoing, the Committee shall not take any of the following actions without shareholder approval, except as provided in Section 17: (i) reduce the exercise price following the grant of an option; (ii) exchange an option which has an exercise price that is greater than the Fair Market Value of a Share for cash or Shares or (iii) cancel an option in exchange for a replacement option

with a lower exercise price. Decisions of the Committee on all matters relating to the Plan, any Award granted under the Plan and any Grant Agreement shall be in the Committee's sole discretion and shall be conclusive and binding on the Company, all Participants and all other parties, unless an arbitration or other provision is expressly provided in a Participant's Grant Agreement. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with applicable federal and state laws and rules and regulations promulgated pursuant thereto. No member of the Committee and no officer of the Company shall be liable for any action taken or omitted to be taken by such member, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under the Plan, except for such person's own willful misconduct or as expressly provided by statute.

The expenses of the Plan shall be borne by the Company. The Plan shall not be required to establish any special or separate fund or make any other segregation of assets to assume the payment of any Award under the Plan, and rights to the payment of such Awards shall be no greater than the rights of the Company's general creditors.

#### 4. Shares Available for the Plan.

Subject to adjustments as provided in Section 17, an aggregate of 16,000,000 shares of Common Stock (the "Shares") may be issued pursuant to the Plan. Such Shares may be in whole or in part authorized and unissued or held by the Company as treasury shares. If any grant under the Plan expires or terminates unexercised, becomes unexercisable or is forfeited as to any Shares, or is tendered or withheld as to any Shares in payment of the exercise price of the grant or the taxes payable with respect to the exercise, then such unpurchased, forfeited, tendered or withheld Shares shall thereafter be available for further grants under the Plan unless, in the case of options granted under the Plan, related SARs are exercised.

Without limiting the generality of the foregoing provisions of this Section 4 or the generality of the provisions of Sections 3, 6, 7, 8, 9, 10 or 19 or any other section of this Plan, the Committee may, at any time or from time to time, and on such terms and conditions (that are consistent with and not in contravention of the other provisions of this Plan) as the Committee may determine, enter into Grant Agreements (or take other actions with respect to the Awards) for new Awards containing terms (including, without limitation, exercise prices) more (or less) favorable than the then-outstanding Awards.

#### 5. Participation.

Participation in the Plan shall be limited to the Participants. Nothing in the Plan or in any Grant Agreement shall confer any right on a Participant to continue in the employ of the Company or any Subsidiary as a director, officer or employee of or in the performance of services for the Company or shall interfere in any way with the right of the Company to terminate the employment or performance of services or to reduce the compensation or responsibilities of a Participant at any time. By accepting any Award under the Plan, each Participant and each person claiming under or through him or her shall be conclusively deemed to have indicated his or her acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.



Awards may be granted to such persons and for such number of Shares as the Committee shall determine, subject to the limitations contained herein (such individuals to whom grants are made being sometimes herein called "optionees" or "grantees," as the case may be). Determinations made by the Committee under the Plan need not be uniform and may be made selectively among eligible individuals under the Plan, whether or not such individuals are similarly situated. A grant of any type made hereunder in any one year to an eligible Participant shall neither guarantee nor preclude a further grant of that or any other type to such Participant in that year or subsequent years.

6. Incentive and Non-qualified Options.

The Committee may from time to time grant to eligible Participants Incentive Stock Options, Non-qualified Stock Options, or any combination thereof; provided that, the Committee may grant Incentive Stock Options only to eligible employees of the Company or its Subsidiaries (as defined for this purpose in Section 424(f) of the Code or any successor thereto). In any one calendar year, the Committee shall not grant to any one Participant options to purchase a number of Shares of Common Stock in excess of 1,000,000 shares of Common Stock. The options granted under the Plan shall be evidenced by a Grant Agreement and shall take such form as the Committee shall determine, subject to the terms and conditions of the Plan.

It is the Company's intent that Non-qualified Stock Options granted under the Plan not be classified as Incentive Stock Options, that Incentive Stock Options be consistent with and contain or be deemed to contain all provisions required under Section 422 of the Code and any successor thereto, and that any ambiguities in construction be interpreted in order to effectuate such intent. If an Incentive Stock Option granted under the Plan does not qualify as such for any reason, then to the extent of such non-qualification, the stock option represented thereby shall be regarded as a Non-qualified Stock Option duly granted under the Plan; provided that, such stock option otherwise meets the Plan's requirements for Non-qualified Stock Options.

(a) Price. The price per Share deliverable upon the exercise of each option (the "exercise price") shall be established by the Committee, except that in the case of the grant of any option, the exercise price may not be less than 100% of the Fair Market Value of a share of Common Stock as of the date of grant of the option, and in the case of the grant of any Incentive Stock Option to an employee who, at the time of the grant, owns more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the exercise price may not be less than 110% of the Fair Market Value of a share of Common Stock as of the date of grant of the option, in each case unless otherwise permitted by Section 422 of the Code or any successor thereto.

(b) Payment. Options may be exercised, in whole or in part, upon payment of the exercise price of the Shares to be acquired. Unless otherwise determined by the Committee, payment shall be made (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 the event a grantee is permitted to, and elects to pay the exercise price payable with respect to an option pursuant to clause (ii) above, (A) only a whole number of share(s) of Common Stock (and not fractional shares of Common Stock) may be tendered in payment, (B) such grantee must present evidence acceptable to the Company that he or she has owned any such shares of Common Stock tendered in payment of the exercise price (and that such tendered shares of Common Stock have not been subject to any substantial risk of forfeiture) for at least six months prior to the date of exercise or such longer period as determined from time to time by the Committee, and (C) Common Stock must be delivered to the Company. Delivery for this purpose may, at the election of the grantee, be made either by (A) physical delivery of the certificate(s) for all such shares of Common Stock tendered in payment of the exercise price, accompanied by duly executed instruments of transfer in a form acceptable to the Company, (B) direction to the grantee's broker to transfer, by book entry, such shares of Common Stock from a brokerage account of the grantee to a brokerage account specified by the Company, or (C) the attestation of the grantee's shares of Common Stock. When payment of the exercise price is made by delivery of Common Stock, the difference, if any, between the aggregate exercise price payable with respect to the option being exercised and the Fair Market Value of the shares of Common Stock tendered in payment (plus any applicable taxes) shall be paid in cash. No grantee may tender shares of Common Stock having a Fair Market Value exceeding the aggregate exercise price payable with respect to the option being exercised (plus any applicable taxes).

(c) Terms of Options. The term during which each option may be exercised shall be determined by the Committee, but if required by the Code, no option shall be exercisable in whole or in part more than ten years from the date it is granted, and no Incentive Stock Option granted to an employee who at the time of the grant owns more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries shall be exercisable more than five years from the date it is granted. All rights to purchase Shares pursuant to an option shall, unless sooner terminated, expire on the date designated by the Committee. The Committee shall determine the date on which each option shall become exercisable and may provide that an option shall become exercisable in installments. The Shares constituting each installment may be purchased in whole or in part at any time after such installment becomes exercisable, subject to such minimum exercise requirements as may be designated by the Committee. Prior to the exercise of an option and delivery of the Shares represented thereby, the optionee shall have no rights as a shareholder with respect to any Shares covered by such outstanding option (including any dividend or voting rights).

(d) Limitations on Grants. If required by the Code, the aggregate Fair Market Value (determined as of the grant date) of Shares for which an Incentive Stock Option is exercisable for the first time during any calendar year under all equity incentive plans of the Company and its Subsidiaries (as defined in Section 422 of the Code or any successor thereto) may not exceed \$100,000.

(e) Termination: Forfeiture.

(i) Death. Unless otherwise provided in a Participant's Grant Agreement, if a Participant ceases to be a director, officer or employee of, or to perform other

services for, the Company or any Subsidiary due to his or her death, all of the Participant's Awards shall become fully vested and all of the Participant's options shall become exercisable and shall remain so for a period of one year from the date of such death, but in no event after the expiration date of the options.

(ii) Disability. Unless otherwise provided in a Participant's Grant Agreement, if a Participant ceases to be a director, officer or employee of, or to perform other services for, the Company or any Subsidiary due to Disability, (A) all of the Participant's options that were exercisable on the date of Disability shall remain exercisable for, and shall otherwise terminate and thereafter be forfeited at the end of, a period of one year after the date of Disability, but in no event after the expiration date of the options, and (B) all of the Participant's Awards that were not fully vested (or, with respect to the Participant's options, exercisable) on the date of Disability shall be forfeited immediately upon such Disability; provided, however, that such Awards may become fully vested (and, with respect to the Participant's options, exercisable) in the discretion of the Committee. Notwithstanding the foregoing, if the Disability giving rise to the termination of employment is not within the meaning of Section 22(e)(3) of the Code or any successor thereto, Incentive Stock Options not exercised by such Participant within 90 days after the date of termination of employment will cease to qualify as Incentive Stock Options and will be treated as Non-qualified Stock Options under the Plan if required to be so treated under the Code.

(iii) Retirement. Unless otherwise provided in a Participant's Grant Agreement, if a Participant ceases to be an officer or employee of, or to perform other services for, the Company or any Subsidiary upon the occurrence of his or her Retirement, (A) all of the Participant's options that were exercisable on the date of Retirement shall remain exercisable for, and shall otherwise terminate and thereafter be forfeited at the end of, a period of two years after the date of Retirement, but in no event after the expiration date of the options, and (B) all of the Participant's Awards that were not fully vested (or, with respect to the Participant's options, exercisable) on the date of Retirement shall be forfeited immediately upon such Retirement; provided, however, that such Awards may become fully vested (and, with respect to the Participant's options, exercisable) in the discretion of the Committee. Notwithstanding the foregoing, Incentive Stock Options not exercised by such Participant within 90 days after Retirement will cease to qualify as Incentive Stock Options and will be treated as Non-qualified Stock Options under the Plan if required to be so treated under the Code.

Unless otherwise provided in a Participant's Grant Agreement, if a Participant ceases to be a director of the Company or any Subsidiary upon the occurrence of his or her Retirement, all of the Participant's Awards shall become fully vested and all of the Participant's options shall become exercisable and shall remain so for a period of two years after the date of Retirement, but in no event after the expiration date of the options.

(iv) Discharge for Cause. Unless otherwise provided in a Participant's Grant Agreement, if a Participant ceases to be a director, officer or employee of, or to perform other services for, the Company or a Subsidiary due to Cause, or if a Participant does not become a director, officer or employee of, or does not begin performing other services for, the Company or a Subsidiary for any reason, all of the Participant's Awards shall be forfeited immediately and

all of the Participant's options shall expire and be forfeited immediately, whether or not then exercisable, upon such cessation or non-commencement.

(v) Other Termination. Unless otherwise provided in a Participant's Grant Agreement, if a Participant ceases to be a director, officer or employee of, or to otherwise perform services for, the Company or a Subsidiary for any reason other than death, Disability, Retirement or Cause, (A) all of the Participant's options that were exercisable on the date of such cessation shall remain exercisable for, and shall otherwise terminate and thereafter be forfeited at the end of, a period of 90 days after the date of such cessation, but in no event after the expiration date of the options, and (B) all of the Participant's Awards that were not fully vested (or, with respect to the Participant's options, exercisable) on the date of such cessation shall be forfeited immediately upon such cessation.

(vi) Change in Control. Unless otherwise provided in a Participant's Grant Agreement, if there is a Change in Control of the Company, all of the Participant's Awards shall become fully vested upon such Change in Control (and, with respect to the Participant's options, exercisable upon such Change in Control and shall remain so until the expiration date of the options), whether or not the Participant is subsequently terminated.

#### 7. Stock Appreciation Rights.

The Committee shall have the authority to grant SARs under this Plan, either alone or to any optionee in tandem with options (either at the time of grant of the related option or thereafter by amendment to an outstanding option). SARs shall be subject to such terms and conditions as the Committee may specify. In any one calendar year, the Committee shall not grant to any one Participant SARs with respect to a number of Shares of Common Stock in excess of 1,000,000 shares of Common Stock.

The exercise price of an SAR must equal or exceed the Fair Market Value of a share of Common Stock on the date of grant of the SAR. Prior to the exercise of the SAR and delivery of the Shares represented thereby, the Participant shall have no rights as a shareholder with respect to Shares covered by such outstanding SAR (including any dividend or voting rights).

SARs granted in tandem with options shall be exercisable only when, to the extent and on the conditions that any related option is exercisable. The exercise of an option shall result in an immediate forfeiture of any related SAR to the extent the option is exercised, and the exercise of an SAR shall cause an immediate forfeiture of any related option to the extent the SAR is exercised.

Upon the exercise of an SAR, the Participant shall be entitled to a distribution from the Company in an amount equal to the difference between the Fair Market Value of a share of Common Stock on the date of exercise and the exercise price of the SAR or, in the case of SARs granted in tandem with options, any option to which the SAR is related, multiplied by the number of Shares as to which the SAR is exercised. Such distribution shall be in Shares having a Fair Market Value equal to such amount.

All SARs will be exercised automatically on the last day prior to the expiration date of the SAR or, in the case of SARs granted in tandem with options, any related option, so long as the Fair Market Value of a share of Common Stock on that date exceeds the exercise price of the SAR or any related option, as applicable. An SAR granted in tandem with options shall expire at the same time as any related option expires and shall be transferable only when, and under the same conditions as, any related option is transferable. Unless otherwise determined by a Participant's Grant Agreement, each SAR shall be subject to the termination and forfeiture provisions as set forth in Section 6(e).

8. Restricted Stock; Restricted Stock Units.

The Committee may at any time and from time to time grant Shares of restricted stock or restricted stock units under the Plan to such Participants and in such amounts as it determines. Each restricted stock unit shall be equivalent in value to one share of Common Stock and shall entitle the Participant to receive from the Company at the end of the vesting period (the "Vesting Period") applicable to such unit the Fair Market Value of one share of Common Stock, unless the Participant has elected at a time that complies with Code Section 409A to defer the receipt of shares of Common Stock.

Each grant of restricted stock units or Shares of restricted stock shall be evidenced by a Grant Agreement which shall specify the applicable restrictions on such units or Shares, the duration of such restrictions, and the time or times at which such restrictions shall lapse with respect to all or a specified number of units or Shares that are part of the grant; provided, however, except for maximum aggregate Awards of restricted stock or restricted stock units of 10% of the aggregate Shares authorized by Section 4, if the vesting condition for any Award, other than an Incentive Stock Option or Non-qualified Stock Option, that is settled in Common Stock (including Awards of restricted stock and restricted stock units)(a "Full Value Award"), excluding any such Award made to a Participant upon commencement of his employment, relates (x) exclusively to the passage of time and continued employment, such time period shall not be less than 36 months, with thirty-three and one-third percent (33⅓%) of the Award vesting every 12 months from the date of the Award, subject to Section 6(e) and (y) to the attainment of specified performance goals, such Full Value Award shall vest over a performance period of not less than one (1) year. Except for maximum aggregate Awards of restricted stock or restricted stock units of 10% of the aggregate Shares authorized by Section 4, the Committee shall not waive or modify any vesting condition for a Full Value Award after such vesting condition has been established with respect to such Award.

Except as otherwise provided in any Grant Agreement, the Participant will be required to pay the Company the aggregate par value of any Shares of restricted stock within ten days of the date of grant, unless such Shares of restricted stock are treasury shares. Unless otherwise determined by the Committee, certificates representing Shares of restricted stock granted under the Plan will be held in escrow by the Company on the Participant's behalf during any period of restriction thereon and will bear an appropriate legend specifying the applicable restrictions thereon, and the Participant will be required to execute a blank stock power therefor.

Restricted stock units may be granted without payment of cash or consideration to the Company. Except as otherwise provided in any Grant Agreement, on the date the restricted

stock units become fully vested and nonforfeitable, the Participant shall receive, upon payment by the Participant to the Company of the aggregate par value of the shares of Common Stock underlying each fully vested restricted stock unit, stock certificates evidencing the conversion of restricted stock units into shares of Common Stock.

Except as otherwise provided in any Grant Agreement, with respect to Shares of restricted stock, during such period of restriction the Participant shall have all of the rights of a holder of Common Stock, including but not limited to the rights to receive dividends and to vote, and any stock or other securities received as a distribution with respect to such Participant's Shares of restricted stock shall be subject to the same restrictions as then in effect for the Shares of restricted stock. Except as otherwise provided in any Grant Agreement, with respect to the restricted stock units, during such period of restriction the Participant shall not have any rights as a shareholder of the Company; provided that, unless otherwise provided in a Participant's Grant Agreement, the Participant shall have the right to receive accumulated dividends or distributions with respect to the corresponding number of shares of Common Stock underlying each restricted stock unit at the end of the Vesting Period, unless such restricted stock units are converted into deferred stock units, in which case such accumulated dividends or distributions shall be paid by the Company to the Participant at such time as the deferred stock units are converted into shares of Common Stock.

Unless otherwise provided in a Participant's Grant Agreement, each unit or Share of restricted stock shall be subject to the termination and forfeiture provisions as set forth in Section 6(e).

#### 9. Performance Awards.

Performance awards may be granted to Participants at any time and from time to time as determined by the Committee. The Committee shall determine the size and composition of performance awards granted to a Participant and the appropriate period over which performance is to be measured (a "performance cycle"). Performance awards may include (i) specific dollar-value target awards (ii) performance units, the value of each such unit being determined by the Committee at the time of issuance, and/or (iii) performance Shares, the value of each such Share being equal to the Fair Market Value of a share of Common Stock. In any one calendar year, the Committee shall not grant to any one Participant performance awards (i) payable in Common Stock for an amount in excess of 1,000,000 shares of Common Stock, or (ii) for performance awards payable in Other Securities or a combination of Common Stock and Other Securities, with a maximum amount payable thereunder of more than the Fair Market Value of 1,000,000 shares of Common Stock determined either on the date of grant of the award or the date the award is paid, whichever is greater.

The value of each performance award may be fixed or it may be permitted to fluctuate based on a performance factor (e.g., return on equity) selected by the Committee; provided that, payment of any performance award that is intended to qualify as "qualified performance-based compensation" within the meaning of Treasury Regulation § 1.162-27(e) shall be based solely on the satisfaction of pre-established, objective goals determined with reference to one or more of the following performance factors: (i) return on equity, (ii) earnings per share, (iii) return on gross or net assets, (iv) return on gross or net revenue, (v) pre- or after-tax net

income, (vi) earnings before interest, taxes, depreciation and amortization, (vii) operating income and (viii) revenue growth.

The Committee shall establish performance goals and objectives for each performance cycle on the basis of such criteria and objectives as the Committee may select from time to time, including, without limitation, the performance of the Participant, the Company, one or more of its Subsidiaries or divisions or any combination of the foregoing. During any performance cycle, the Committee shall have the authority to adjust the performance goals and objectives for such cycle for such reasons as it deems equitable.

The Committee shall determine the portion of each performance award that is earned by a Participant on the basis of the Company's performance over the performance cycle in relation to the performance goals for such cycle. The earned portion of a performance award may be paid out in Shares, Other Company Securities or any combination thereof, as the Committee may determine.

A Participant must be a director, officer or employee of, or otherwise perform services for, the Company or its Subsidiaries at the end of the performance cycle in order to be entitled to payment of a performance award issued in respect of such cycle; provided, however, unless otherwise provided in a Participant's Grant Agreement, each performance award shall be subject to the termination and forfeiture provisions as set forth in Section 6(e).

10. Deferred Stock Units.

Deferred stock units (A) may be granted to Participants at any time and from time to time as determined by the Committee, and (B) shall be issued to Participants who elected prior to the date the restricted stock units were granted to defer delivery of shares of Common Stock that would otherwise be due by virtue of the lapse or waiver of the vesting requirements of their restricted stock units. All elections with respect to deferred stock units shall be made in accordance with the election and distribution timing rules in Code Section 409A.

Except as otherwise provided in any Grant Agreement, deferred stock units shall be granted without payment of cash or other consideration to the Company but in consideration of services performed for or for the benefit of the Company or any Subsidiary by such Participant. Payment of the value of deferred stock units shall be made by the Company in shares of Common Stock; provided that, the Participant shall receive a number of shares of Common Stock equal to the number of matured or earned deferred stock units. Upon payment in respect of a deferred stock unit, such unit shall be terminated and thereafter forfeited. Payments in respect of deferred stock units shall be made only at the end of the Deferral Period applicable to such units, the duration of which Deferral Period shall be determined by the Committee at the time of grant of such deferred stock units and set forth in the applicable Grant Agreement (or by the Participant in the case of an election to defer the receipt of Common Stock beyond the Vesting Period).

Except as otherwise provided in any Grant Agreement, during such Deferral Period the Participant shall not have any rights as a shareholder of the Company; provided that, unless otherwise provided in a Participant's Grant Agreement, the Participant shall have the right

to receive accumulated dividends or distributions with respect to the corresponding number of shares of Common Stock underlying each deferred stock unit at the end of the Deferral Period when such deferred stock units are converted into shares of Common Stock.

Unless otherwise provided in the Participant's Grant Agreement or related election form, if a Participant dies while serving as a director, officer or employee of the Company or its Subsidiary prior to the end of the Deferral Period, the Participant shall receive payment in respect to such Participant's deferred stock units which would have matured or been earned at the end of such Deferral Period as if the applicable Deferral Period had ended as of the date of such Participant's death.

Unless otherwise provided in a Participant's Grant Agreement or related election form, if a Participant ceases to be a director, officer or employee of, or to otherwise perform services for, the Company or its Subsidiaries upon his or her Disability or Retirement prior to the end of the Deferral Period, the Participant shall receive payment in respect of such Participant's deferred stock units at the end of such Deferral Period.

Unless otherwise provided in the Participant's Grant Agreement or related election form, at such time as a Participant ceases to be, or in the event a Participant does not become, a director, officer or employee of, or otherwise performing services for, the Company or its subsidiaries for any reason other than Disability, Retirement or death, such Participant shall immediately forfeit any unvested deferred stock units which would have matured or been earned at the end of such Deferral Period.

11. Grant of Dividend Equivalent Rights.

The Committee may include in a Participant's Grant Agreement a dividend equivalent right entitling the grantee to receive amounts equal to all or any portion of the dividends that would be paid on the shares of Common Stock covered by such Award if such Shares had been delivered pursuant to such Award. In the event such a provision is included in a Grant Agreement, the Committee shall determine whether such payments shall be made in cash, in shares of Common Stock or in another form, whether they shall be conditioned upon the exercise of the Award to which they relate, the time or times at which they shall be made, and such other terms and conditions as the Committee shall deem appropriate.

12. Withholding Taxes.

(a) 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 an option or SAR or deliverable upon grant of restricted stock or vesting of restricted stock units or deferred stock units or the receipt of Common Stock, as the case may be) to satisfy, in whole or in part, the amount the Company is required to withhold for taxes in connection with the exercise of an option or SAR or the delivery of restricted stock upon grant or vesting or the receipt of Common Stock, as the case may be. Such election must be made on or before the date the amount of tax to be withheld is determined. Once made, the election shall be 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 12(a), such delivery or withholding must be made subject to the conditions and pursuant to the procedures set forth in Section 6(b) with respect to the delivery or withholding of Common Stock in payment of the exercise price of options.

(b) Company Requirement. The Company may require, as a condition to any grant or exercise under the Plan or to the delivery of certificates for Shares issued hereunder, that the grantee make provision for the payment to the Company, either pursuant to Section 12(a) or this Section 12(b), of federal, state or local taxes of any kind required by law to be withheld with respect to any grant or delivery of Shares. 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 grantee, 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 Shares under the Plan.

13. Grant Agreement; Vesting.

Each employee to whom an Award is made under the Plan shall enter into a Grant Agreement with the Company that shall contain such provisions, including without limitation vesting requirements, consistent with the provisions of the Plan, as may be approved by the Committee. Unless the Committee determines otherwise and except as otherwise provided in Sections 6, 7, 8, 9 and 10 in connection with a Change of Control or certain occurrences of termination, no Award under this Plan may be exercised, and no restrictions relating thereto may lapse, within six months of the date such Award is made.

14. Transferability.

Unless otherwise provided in any Grant Agreement, no Award granted under the Plan shall be transferable by a Participant other than by will or the laws of descent and distribution or to a Participant's Family Member by gift or a qualified domestic relations order as defined by the Code. Unless otherwise provided in any Grant Agreement, an option, SAR or performance award may be exercised only by the optionee or grantee thereof; by his or her Family Member if such person has acquired the option, SAR or performance award by gift or qualified domestic relations order; by the executor or administrator of the estate of any of the foregoing or any person to whom the Option is transferred by will or the laws of descent and distribution; or by the guardian or legal representative of any of the foregoing; provided that, Incentive Stock Options may be exercised by any Family Member, guardian or legal representative only if permitted by the Code and any regulations thereunder. All provisions of this Plan shall in any event continue to apply to any Award granted under the Plan and transferred as permitted by this Section 14, and any transferee of any such Award shall be bound by all provisions of this Plan as and to the same extent as the applicable original grantee.

15. Listing, Registration and Qualification.

If the Committee determines that the listing, registration or qualification upon any securities exchange or under any law of Shares subject to any Award is necessary or desirable as a condition of, or in connection with, the granting of same or the issue or purchase of Shares thereunder, no such option or SAR may be exercised in whole or in part, no such performance

award, restricted stock unit or deferred stock unit may be paid out, and no Shares may be issued, unless such listing, registration or qualification is effected free of any conditions not acceptable to the Committee.

16. Transfer of Employee.

The transfer of an employee from the Company to a Subsidiary, from a Subsidiary to the Company, or from one Subsidiary to another Subsidiary shall not be considered a termination of employment; nor shall it be considered a termination of employment if an employee is placed on military or sick leave or such other leave of absence which is considered by the Committee as continuing intact the employment relationship.

17. Adjustments.

In the event that any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, distribution of assets, or any other change in the corporate structure or shares of the Company affects Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan, the Committee shall make such equitable adjustments in any or all of the following in order to prevent such dilution or enlargement of rights: the number and kind of Shares or other property available for issuance under the Plan (including, without limitation, the total number of Shares available for issuance under the Plan pursuant to Section 4), the number and kind of Awards or other property covered by Awards previously made under the Plan, and the exercise price of outstanding options and SARs. Any such adjustment shall be final, conclusive and binding for all purposes of the Plan. In the event of any merger, consolidation or other reorganization in which the Company is not the surviving or continuing corporation or in which a Change in Control is to occur, all of the Company's obligations regarding any Awards that were granted hereunder and that are outstanding on the date of such event shall, on such terms as may be approved by the Committee prior to such event, be assumed by the surviving or continuing corporation or canceled in exchange for property (including cash).

Without limitation of the foregoing, in connection with any transaction of the type specified by clause (iii) of the definition of a Change in Control in Section 2(c), the Committee may (i) cancel any or all outstanding options under the Plan in consideration for payment to the holders thereof of an amount equal to the portion of the consideration, if any, that would have been payable to such holders pursuant to such transaction if their options had been fully exercised immediately prior to such transaction, less the aggregate exercise price that would have been payable therefor, or (ii) if the amount that would have been payable to the option holders pursuant to such transaction if their options had been fully exercised immediately prior thereto would be equal to or less than the aggregate exercise price that would have been payable therefor, cancel any or all such options for no consideration or payment of any kind. Payment of any amount payable pursuant to 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.

18. Amendment and Termination of the Plan.

The Board or the Committee, without approval of the shareholders, may amend or terminate the Plan at any time, except that no amendment shall become effective without prior approval of the shareholders of the Company if (i) shareholder approval would be required by applicable law or regulations, including if required by any listing requirement of the principal stock exchange or national market on which the Common Stock is then listed, (ii) such amendment would remove from the Plan a provision which, without giving effect to such amendment, is subject to shareholder approval, or (iii) such amendment would directly or indirectly increase the Share limits set forth in Section 4 of the Plan.

19. Amendment or Substitution of Awards under the Plan.

The terms of any outstanding Award under the Plan may be amended from time to time by the Committee in any manner that it deems appropriate (including, but not limited to, acceleration of the date of exercise of any Award and/or payments thereunder or of the date of lapse of restrictions on Shares); provided that, except as otherwise provided in Section 17, no such amendment shall adversely affect in a material manner any right of a Participant under the Award without his or her written consent, and provided further that, the Committee shall not reduce the exercise price of any options or SARs awarded under the Plan without approval of the shareholders of the Company. The Committee may, in its discretion, permit holders of Awards under the Plan to surrender outstanding Awards in order to exercise or realize rights under other awards, or in exchange for the grant of new awards, or require holders of Awards to surrender outstanding Awards as a condition precedent to the grant of new awards under the Plan. Notwithstanding the foregoing, in no event shall the Committee amend the distribution terms in any Award or Grant Agreement that has a feature for the deferral of compensation if such amendment would result in taxes, additional interest and/or penalties pursuant to Code Section 409A.

20. Commencement Date; Termination Date

The date of commencement of the Plan shall be the Commencement Date.

Unless previously terminated upon the adoption of a resolution of the Board terminating the Plan, the Plan shall terminate at the close of business ten years after the Commencement Date. No termination of the Plan shall materially and adversely affect any of the rights or obligations of any person, without his or her written consent, under any Award or other incentives theretofore granted under the Plan.

21. Severability. Whenever possible, each provision of the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of the Plan.

22. Governing Law. The Plan shall be governed by the corporate laws of the State of Delaware, without giving effect to any choice of law provisions that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction.

\* \* \* \*

**NRG Energy, Inc.**

**Executive & Key Management  
Change-in-Control  
and General Severance Plan**

(Amended and Restated April 25, 2007)

---

# Contents

---

Article 1. Establishment and Term of the Plan	1
Article 2. Definitions	2
Article 3. Severance Benefits	5
Article 4. Confidentiality and Noncompetition	8
Article 5. Excise Tax Equalization Payment	11
Article 6. Legal Fees and Notice	11
Article 7. Successors and Assignment	12
Article 8. Miscellaneous	12

---

# **NRG Energy, Inc.**

## **Executive & Key Management Change-in-Control and General Severance Plan**

### **Article 1. Establishment and Term of the Plan**

**1.1 Establishment of the Plan.** NRG Energy, Inc. (hereinafter referred to as the “Company”) hereby establishes a severance plan to be known as the “NRG Energy, Inc. Executive Change-in-Control and General Severance Plan” (the “Plan”). The Plan provides severance benefits to certain employees of the Company (“Executives”) upon certain terminations of employment from the Company.

The Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its stockholders. In this connection, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may arise and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

Accordingly, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s management to their assigned duties without distraction in circumstances arising from the possibility of a Change in Control of the Company.

**1.2 Initial Term.** This Plan will commence on May 24, 2006 (the “Effective Date”) and shall continue in effect for a period of three (3) years (the “Initial Term”).

**1.3 Successive Periods.** The term of this Plan shall automatically be extended for one (1) additional year at the end of the Initial Term, and then again after each successive one (1) year period thereafter (each such one (1) year period following the Initial Term is referred to as a “Successive Period”). However, the Committee may terminate this Plan at the end of the Initial Term, or at the end of any Successive Period thereafter, by giving the Executives written notice of intent to terminate the Plan, delivered at least six (6) months prior to the end of such Initial Term or Successive Period. If such notice is properly delivered by the Company, this Plan, along with all corresponding rights, duties, and covenants, shall automatically expire at the end of the Initial Term or Successive Period then in progress.

**1.4 Change-in-Control Renewal.** Notwithstanding the provisions of Section 1.3 above, in the event that a Change in Control of the Company occurs during the Initial Term or any Successive Period, upon the effective date of such Change in Control, the term of this Plan shall automatically and irrevocably be renewed for a period of two (2) years from the effective date of such Change in Control. Further, this Plan may be assigned to the successor in such Change in Control, as further provided in Article 8 herein. This Plan shall thereafter automatically terminate following such two (2) year Change-in-Control renewal period.

## Article 2. Definitions

Whenever used in this Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized.

- (a) **“Base Salary”** means the greater of the Executive’s annual rate of salary, whether or not deferred, at: (i) the Effective Date of Termination or (ii) at the date of the Change in Control.
- (b) **“Beneficiary”** means the persons or entities designated or deemed designated by the Executive pursuant to Section 8.5 herein.
- (c) **“Board”** means the Board of Directors of the Company.
- (d) **“Cause”** shall mean one or more of the following:
  - (i) The conviction of, or an agreement to a plea of *nolo contendere* to, any felony or other crime involving moral turpitude; or
  - (ii) The Executive’s willful and continuing refusal to substantially perform duties as reasonably directed by the Board under this or any other agreement (after receipt of written notice from the Board setting forth such duties and responsibilities to be performed); or
  - (iii) In carrying out the Executive’s duties, the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct which, in either case, results in demonstrable harm to the business, operations, prospects, or reputation of the Company; or
  - (iv) Any other material breach of Article 4 of this Plan which is not cured to the Board’s reasonable satisfaction within fifteen (15) days after written notice thereof to the Executive.

For purposes of this Plan, there shall be no termination for Cause pursuant to subsections (i) through (iv) above, unless a written notice, containing a detailed description of the grounds constituting Cause hereunder, is delivered to the Executive stating the basis for the termination. Upon receipt of such notice, the Executive shall be given thirty (30) days to fully cure and remedy the neglect or conduct that is the basis of such claim. If the Executive fails to fully cure and remedy such neglect or misconduct within such thirty (30) day period, the Executive shall have an opportunity to be heard before the full Board. After such hearing, a termination for Cause shall only occur if there is a vote of three-quarters (3/4) of the Board to terminate the Executive for Cause.



- (e) **“Change in Control”** shall mean the first to occur of any of the following events:
- (i) Any “person” (as that term is used in Sections 13 and 14(d)(2) of the Securities Exchange Act of 1934 (“Exchange Act”)) becomes the “Beneficial Owner” (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the Company’s capital stock entitled to vote in the election of directors, excluding any “person” who becomes a “beneficial owner” in connection with a Business Combination (as defined in paragraph (iii) below) which does not constitute a Change in Control under said paragraph (iii); or
  - (ii) Persons who on the Effective Date constitute the Board (the “Incumbent Directors”) cease for any reason, including without limitation, as a result of a tender offer, proxy contest, merger, or similar transaction, to constitute at least a majority thereof, provided that any person becoming a director of the Company subsequent to the Effective Date shall be considered an Incumbent Director if such person’s election or nomination for election was approved by a vote of at least two-thirds (2/3) of the Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a “person” (as defined in Sections 13(d) and 14(d) of the Exchange Act) other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or
  - (iii) Consummation of a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners of outstanding voting securities of the Company immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the company resulting from such Business Combination (including, without limitation, a company which, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the outstanding voting securities of the Company; or
  - (iv) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.
- (f) **“Code”** means the United States Internal Revenue Code of 1986, as amended, and any successors thereto.

- (g) **“Committee”** means the Compensation Committee of the Board or any other committee appointed by the Board to perform the functions of the Compensation Committee.
- (h) **“Company”** means NRG Energy, Inc., a Delaware corporation, or any successor thereto as provided in Section 7 herein.
- (i) **“Disability”** shall mean the Executive’s inability to perform the essential duties, responsibilities, and functions of his position with the Company and its affiliates as a result of any mental or physical disability or incapacity even with reasonable accommodations of such disability or incapacity, provided by the Company and its affiliates, or if providing such accommodations would be unreasonable, for a period of twelve (12) months. The Executive shall cooperate in all respects with the Company if a question arises as to whether he has become disabled (including, without limitation, submitting to an examination by a medical doctor or other health care specialists selected by the Company and reasonably acceptable to the Executive and authorizing such medical doctor or such other health care specialist to discuss the Executive’s condition with the Company).
- (j) **“Effective Date”** means the commencement date of this Plan as specified in Section 1.2 of this Plan.
- (k) **“Effective Date of Termination”** means the date on which a Qualifying Termination occurs, as defined hereunder, which triggers the payment of Severance Benefits hereunder.
- (l) **“Former Parent Company”** means Xcel Energy, Inc., a Minnesota corporation, or any successor thereto.
- (m) **“Good Reason”** shall mean without the Executive’s express written consent the occurrence of any one or more of the following:
  - (i) The Company materially reduces the amount of the Executive’s then current Base Salary or the target for his annual bonus; or
  - (ii) A material reduction in the Executive’s benefits under or relative level of participation in the Company’s employee benefit or retirement plans, policies, practices, or arrangements in which the Executive participates as of the Effective Date of this Plan; or
  - (iii) A material diminution in the Executive’s title, authority, duties, or responsibilities or the assignment of duties to the Executive which are materially inconsistent with his position; or
  - (iv) The failure of the Company to obtain in writing the obligation to perform or be bound by the terms of this Plan by any successor to the Company or a purchaser

of all or substantially all of the assets of the Company within fifteen (15) days after a merger, consolidation, sale, or similar transaction.

For purposes of this Plan, the Executive is not entitled to assert that his termination is for Good Reason unless the Executive gives the Board written notice of the event or events which are the basis for such claim within ninety (90) days after the event or events occur, describing such claim in reasonably sufficient detail to allow the Board to address the event or events and a period of not less than thirty (30) days after to cure or fully remedy the alleged condition.

- (n) **“Key Employee”** means any Eligible Employee described in section 409A(a)(2)(B)(i) of the Code.
- (o) **“Notice of Termination”** shall mean a written notice which shall indicate the specific termination provision in this Plan relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated.
- (p) **“Qualifying Termination”** means:
  - (i) If such event occurs within twenty-four (24) months immediately following a Change in Control:
    - (A) An involuntary termination of the Executive’s employment by the Company for reasons other than Cause pursuant to a Notice of Termination delivered to the Executive by the Company; or
    - (B) A voluntary termination by the Executive for Good Reason pursuant to a Notice of Termination delivered to the Company by the Executive; or
  - (ii) If such event occurs at any other time:
    - (A) An involuntary termination of the Executive’s employment by the Company for reasons other than Cause pursuant to a Notice of Termination delivered to the Executive by the Company.
- (q) **“Retirement”** shall have the meaning ascribed to such term in the Company’s tax-qualified retirement plan or under the successor or replacement of such retirement plan if it is then no longer in effect.
- (r) **“Severance Benefits”** means the payment of Change-in-Control or General (as appropriate) Severance compensation as provided in Article 3 herein.

## **Article 3. Severance Benefits**

### **3.1 Right to Severance Benefits.**

- (a) **Change-in-Control Severance Benefits.** The Executive shall be entitled to receive from the Company Change-in-Control Severance Benefits, as described in Section 3.2 herein, if a Qualifying Termination of the Executive's employment has occurred within twenty-four (24) months immediately following a Change in Control of the Company.
- (b) **General Severance Benefits.** The Executive (other than any Tier III Executive) shall be entitled to receive from the Company General Severance Benefits, as described in Section 3.3 herein, if a Qualifying Termination of the Executive's employment has occurred other than during the twenty-four (24) months immediately following a Change in Control.
- (c) **No Severance Benefits.** The Executive shall not be entitled to receive Severance Benefits if the Executive's employment with the Company ends for reasons other than a Qualifying Termination.
- (d) **General Release and Acknowledgement of Restrictive Covenants.** As a condition to receiving Severance Benefits under either Section 3.2 or 3.3 herein, the Executive shall be obligated to execute a general release of claims in favor of the Company, its current and former affiliates and stockholders, and the current and former directors, officers, employees, and agents of the Company in a form acceptable to the Company. The Executive must also execute a notice acknowledging the restrictive covenants in Article 4.
- (e) **No Duplication of Severance Benefits.** If the Executive becomes entitled to Change-in-Control Severance Benefits, the Severance Benefits provided for under Section 3.2 hereunder shall be in lieu of all other Severance Benefits provided to the Executive under the provisions of this Plan and any other Company-related or Former Parent Company-related severance plans, programs, or agreements including, but not limited to, the Severance Benefits under Section 3.3 herein. Likewise, if the Executive becomes entitled to General Severance Benefits, the Severance Benefits provided under Section 3.3 hereunder shall be in lieu of all other Severance Benefits provided to the Executive under the provisions of this Plan and any other Company-related severance plans, programs, or other agreements including, but not limited to, the Severance Benefits under Section 3.2 herein.

**3.2 Description of Change-in-Control Severance Benefits.** In the event the Executive becomes entitled to receive Change-in-Control Severance Benefits, as provided in Section 3.1(a) herein, the Company shall provide the Executive with the following:

- (a) A lump-sum amount paid within forty-five (45) calendar days of the Effective Date of Termination equal to the Executive's unpaid Base Salary, accrued vacation pay, unreimbursed business expenses, and all other items earned by and owed to the Executive through and including the Effective Date of Termination.

- (b) A benefit amount equal to: (i) two and ninety-nine one-hundredths (2.99) for Tier I Executives (as identified in Appendix A), or (ii) two (2) for Tier II Executives (as identified in Appendix A) times the sum of the following: (A) the Executive's Base Salary and (B) the Executive's annual target bonus opportunity in the year of termination. A Tier III Executive (as identified in Appendix A) shall be entitled to a benefit amount equal to (i) one and one-half (1.5) for Tier III-Level 1 Executives (as identified on Appendix A), (ii) one (1) for Tier III-Level 2 Executives (as identified on Appendix A) times the Executive's Base Salary. Unless otherwise determined by the Board, and at the Board's discretion, such benefit amount shall be paid out over a period of: (i) thirty-six (36) months for Tier I Executives (as identified in Appendix A), (ii) twenty-four (24) months for Tier II Executives (as identified in Appendix A), (iii) eighteen (18) months for Tier III-Level 1 Executives (as identified on Appendix A), or (iv) twelve (12) months for Tier IV-Level 2 Executives (as identified on appendix A) in accordance with the payroll procedures of the Company, to commence on the next regularly scheduled payroll cycle immediately following the date on which the Executive's general release becomes effective and irrevocable.
- (c) In the case of Tier I and Tier II Executives only, a lump-sum amount, paid within forty-five (45) calendar days of the Effective Date of Termination, equal to the Executive's then current target bonus opportunity established under the bonus plan in which the Executive is then participating, for the plan year in which a Qualifying Termination occurs, adjusted on a pro rata basis based on the number of days the Executive was actually employed during the bonus plan year in which the Qualifying Termination occurs.
- (d) In the case of Tier I and Tier II Executives only, continuation for eighteen (18) months of the Executive's medical and dental coverage. These benefits shall be provided by the Company to the Executive beginning immediately upon the Effective Date of Termination. Such benefits shall be provided to the Executive at the same coverage level and cost to the Executive as in effect immediately prior to the Executive's Effective Date of Termination.
- Notwithstanding the above, these medical benefits shall be discontinued prior to the end of the stated continuation period in the event the Executive receives substantially similar benefits from a subsequent employer, as determined solely by the Committee in good faith. For purposes of enforcing this offset provision, the Executive shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to provide, to the Company in writing correct, complete, and timely information concerning the same.
- (e) Treatment of outstanding long-term incentives shall be in accordance with the governing plan document and award agreements, if any.

- (f) Notwithstanding anything herein to the contrary, in the case of any Key Employee such Change in Control Severance Benefits shall be paid as soon as practicable following the date six months after the Effective Date of Termination; provided, the foregoing shall only apply to the extent the Company determines such delay is required under section 409A of the Code.

**3.3 Description of General Severance Benefits.** Only Tier I and Tier II Executives shall be eligible to receive General Severance Benefits under the Plan; Tier III Executives shall not be eligible to receive General Severance Benefits under the Plan (but may be eligible to receive benefits under the Company's generally applicable severance plan, as may be in effect from time to time). In the event the Executive becomes entitled to receive General Severance Benefits as provided in Section 3.1(b) herein, the Company shall provide the Executive with the following:

- (a) A lump-sum amount, paid within forty-five (45) calendar days of the Effective Date of Termination, equal to the Executive's unpaid Base Salary, accrued vacation pay, unreimbursed business expenses, and all other items earned by and owed to the Executive through and including the Effective Date of Termination.
- (b) A benefit amount equal to one and one-half (1.5) for Tier I and Tier II Executives (as identified in Appendix A) times the Executive's Base Salary. Such benefit amount shall be paid out over a period of eighteen (18) months in accordance with the payroll procedures of the Company, to commence on the next regularly scheduled payroll cycle immediately following the date on which the Executive's general release becomes effective and irrevocable.
- (c) Continuation for eighteen (18) months of the Executive's medical and dental insurance coverage.

These benefits shall be provided by the Company to the Executive beginning immediately upon the Effective Date of Termination. Such benefits shall be provided to the Executive at the same coverage level and cost to the Executive as in effect immediately prior to the Executive's Effective Date of Termination.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event the Executive receives substantially similar benefits from a subsequent employer, as determined solely by the Committee in good faith. For purposes of enforcing this offset provision, the Executive shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to provide, to the Company in writing correct, complete, and timely information concerning the same.

- (d) Treatment of outstanding long-term incentives shall be in accordance with the governing plan document and award agreements, if any.

- (e) Notwithstanding anything herein to the contrary, in the case of any Key Employee such General Severance Benefits shall be paid as soon as practicable following the date six months after the Effective Date of Termination; provided, the foregoing shall only apply to the extent the Company determines such delay is required under section 409A of the Code.

#### **Article 4. Confidentiality and Noncompetition**

In the event the Executive becomes entitled to receive Change-in-Control Severance Benefits as provided in Section 3.2 herein or General Severance Benefits as provided in Section 3.3 herein, the following shall apply:

- (a) **Confidential Information.** The Executive acknowledges that the information, observations, and data (including trade secrets) obtained by him while employed by the Company concerning the business or affairs of the Company or any of its affiliates (“Confidential Information”) are the property of the Company or such affiliate. Therefore, except in the course of the Executive’s duties to the Company or as may be compelled by law or appropriate legal process, the Executive agrees that he shall not disclose to any person or entity or use for his own purposes any Confidential Information or any confidential or proprietary information of other persons or entities in the possession of the Company and its affiliates (“Third Party Information”), without the prior written consent of the Board, unless and to the extent that the Confidential Information or Third Party Information becomes generally known to and available for use by the public other than as a result of the Executive’s acts or omissions. Except in the course of the Executive’s duties to Company or as may be compelled by law or appropriate legal process, the Executive will not, during his employment with the Company, or permanently thereafter, directly or indirectly use, divulge, disseminate, disclose, lecture upon, or publish any Confidential Information, without having first obtained written permission from the Board to do so. As of the Effective Date of Termination, the Executive shall deliver to the Company, or at any other time the Company may reasonably request, all memoranda, notes, plans, records, reports, computer files, disks and tapes, printouts and software and other documents and data (and copies thereof) embodying or relating to Third Party Information, Confidential Information, or the business of the Company, or its affiliates which he may then possess or have under his control.
- (b) **Intellectual Property, Inventions, and Patents.** The Executive acknowledges that all discoveries, concepts, ideas, inventions, innovations, improvements, developments, methods, trade secrets, designs, analyses, drawings, reports, patent applications, copyrightable work and mask work (whether or not including any confidential information), and all registrations or applications related thereto, all other proprietary information and all similar or related information (whether or not patentable) which may relate to the Company’s or any of its affiliates’ actual or anticipated business, research and development, or existing or future products or services and which are conceived, developed, or made by the Executive (whether alone or jointly with others) while employed by the Company and its affiliates (“Work Product”), belong to the Company or such affiliate. The Executive shall promptly disclose such Work Product to the Board

and, at the Company's expense, perform all actions reasonably requested by the Board (whether during or after the Executive's employment with the Company) to establish and confirm such ownership (including, without limitation, assignments, consents, powers of attorney, and other instruments). The Executive acknowledges that all applicable Work Product shall be deemed to constitute "works made for hire" under the U.S. Copyright Act of 1976, as amended. To the extent any Work Product is not deemed a work made for hire, then the Executive hereby assigns to the Company or such affiliate all right, title, and interest in and to such Work Product, including all related intellectual property rights.

The Executive is hereby advised that the above paragraph regarding the Company's and its affiliates' ownership of Work Product does not apply to any invention for which no equipment, supplies, facilities, or trade secret information of the Company or any affiliate was used and which was developed entirely on the Executive's own time, unless: (i) the invention relates to the business of the Company or any affiliate or to the Company's or any affiliate's actual or demonstrably anticipated research or development, or (ii) the invention results from any work performed by the Executive for the Company or any affiliate.

- (c) **Noncompete.** In further consideration of the compensation to be paid to the Executive hereunder, the Executive acknowledges that during the course of his employment with the Company and its affiliates he shall become familiar with the Company's trade secrets and with other Confidential Information concerning the Company and its affiliates and that his services shall be of special, unique, and extraordinary value to the Company and its affiliates, and therefore, the Executive agrees that, during the Executive's employment with the Company and for one (1) year thereafter (the "Noncompete Period"), the Executive shall not directly or indirectly own any interest in, manage, control, participate in, consult with, render services for, be employed in an executive, managerial, or administrative capacity by, or in any manner engage in any company engaged in the business of wholesale power generation which competes with the businesses of the Company or its affiliates, as such businesses exist or are in process during the Executive's employment with the Company, within any geographical area in which the Company or its affiliates engage or have definitive plans to engage in such businesses. Nothing herein shall prohibit the Executive from being a passive owner of not more than two percent (2%) of the outstanding stock of any class of a corporation which is publicly traded, so long as the Executive has no active participation in the business of such corporation. Notwithstanding the foregoing, the provisions of this Article 4(c) shall not apply in the case of termination of the Executive's employment pursuant to any material breach of the Company's obligations under Article 3 which remains uncured for more than twenty (20) days after notice is received from the Executive of such breach, which such notice shall include a detailed description of the grounds constituting such breach.
- (d) **Nonsolicitation.** During the Noncompete Period, the Executive shall not directly or indirectly through another person or entity: (i) induce or attempt to induce any employee of the Company or any of its affiliates to leave the employ of the Company or such affiliate, or in any way interfere with the relationship between the Company or any affiliate and any employee thereof; (ii) hire any person who was an employee of the



Company or any affiliate during the last six (6) months of the Executive's employment with the Company; or (iii) induce or attempt to induce any customer, supplier, licensee, licensor, franchisee, or other business relation of the Company or any affiliate to cease doing business with the Company or such affiliate, or in any interfere with the relationship between any such customer, supplier, licensee, or business relation and the Company or any affiliate (including, without limitation, making any negative or disparaging statements or communications regarding the Company or its affiliates).

- (e) **Duration, Scope, or Area.** If, at the time of enforcement of this Article 4, a court shall hold that the duration, scope, or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope, or area reasonable under such circumstances shall be substituted for the stated duration, scope, or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope, and area permitted by law.
- (f) **Company Enforcement.** In the event of a breach or a threatened breach by the Executive of any of the provisions of this Article 4, the Company would suffer irreparable harm, and in addition and supplementary to other rights and remedies existing in its favor, the Company shall be entitled to specific performance and/or injunctive or other equitable relief from a court of competent jurisdiction in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of a breach or violation by the Executive of Article 4(c), the Noncompete Period shall be automatically extended by the amount of time between the initial occurrence of the breach or violation and when such breach or violation has been duly cured.

## **Article 5. Excise Tax Equalization Payment**

In the event that any payment or benefit made or provided to or for the benefit of a Tier I or Tier II Executive in connection with this Plan or his employment with the Company or the termination thereof (a "Payment") is determined to be subject to any excise tax ("Excise Tax") imposed by Section 4999 of the Code (or any successor to such Section), the Company shall pay to such Executive, prior to the time any Excise Tax is payable with respect to such Payment (through withholding or otherwise), an additional amount (a "Gross-Up Payment") which, after the imposition of all income, employment, excise and other taxes, penalties and interest thereon, is equal to the sum of: (i) the Excise Tax on such Payment, plus (ii) any penalty and interest assessments associated with such Excise Tax. The determination of whether any Payment is subject to an Excise Tax and, if so, the amount and time of any Gross-Up Payment pursuant to this Article 5 shall be made by an independent auditor (the "Auditor") jointly selected by the parties and paid by the Company. Unless the Executive agrees otherwise in writing, the Auditor shall be a nationally recognized United States public accounting firm that has not, during the two (2) years preceding the date of its selection, acted in any way on behalf of the Company or any of its affiliates. If the parties cannot agree on the firm to serve as the Auditor, then the parties shall each select one (1) accounting firm and those two (2) firms shall jointly select the accounting firm to serve as the Auditor. The parties shall cooperate with each other in connection with any Proceeding, defined as any threatened or actual action, suit, or proceeding, whether civil, criminal, administrative, investigative, appellate, or other, or Claim, defined as any claim, demand, request, investigation, dispute, controversy, threat, discovery request, or request for testimony or information, relating to the existence or amount of any liability for Excise Tax. All expenses relating to any such Proceeding or Claim (including attorneys' fees and other expenses incurred by the Executive in connection therewith) shall be paid by the Company promptly upon demand by the Executive, and any such payment shall be subject to a Gross-Up Payment under this Article 5 in the event that the Executive is subject to Excise Tax on such payment. This Article 5 shall apply irrespective of whether a Change in Control has occurred.

## **Article 6. Legal Fees and Notice**

**6.1 Payment of Legal Fees.** Except as otherwise agreed to by the parties, the Company shall pay the Executive for costs of litigation or other disputes including, without limitation, reasonable attorneys' fees incurred by the Executive in asserting any claims or defenses under this Plan, except that the Executive shall bear his own costs of such litigation or disputes (including, without limitation, attorneys' fees) if the court (or arbitrator) finds in favor of the Company with respect to any claims or defenses asserted by the Executive.

**6.2 Notice.** Any notices, requests, demands, or other communications provided for by this Plan shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address he or she has filed in writing with the Company or, in the case of the Company, at its principal offices.

## Article 7. Successors and Assignment

**7.1 Successors to the Company.** The Company shall require any successor (whether direct or indirect, by purchase, merger, reorganization, consolidation, acquisition of property or stock, liquidation, or otherwise) of all or a significant portion of the assets of the Company by agreement, in form and substance satisfactory to the Executive, to expressly assume and agree to perform under this Plan in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. Regardless of whether such agreement is executed, the terms of this Plan shall be binding upon any successor in accordance with the operation of law and such successor shall be deemed the "Company" for purposes of this Plan.

**7.2 Assignment by the Executive.** This Plan shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive dies while any amount would still be payable to him or her hereunder had he or she continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the Executive's Beneficiary. If the Executive has not named a Beneficiary, then such amounts shall be paid to the Executive's devisee, legatee, or other designee, or if there is no such designee, to the Executive's estate.

## Article 8. Miscellaneous

**8.1 Employment Status.** Except as may be provided under any other agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and may be terminated by either the Executive or the Company at any time, subject to applicable law.

**8.2 Entire Plan.** This Plan supersedes any prior agreements or understandings, oral or written, between the parties hereto, with respect to the subject matter hereof, and constitutes the entire agreement of the parties with respect thereto. Without limiting the generality of the foregoing sentence, this Plan completely supersedes any and all prior employment agreements entered into by and between the Company and the Executive, and all amendments thereto, in their entirety.

**8.3 Severability.** In the event that any provision or portion of this Plan shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Plan shall be unaffected thereby and shall remain in full force and effect.

**8.4 Tax Withholding.** The Company may withhold from any benefits payable under this Plan all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

**8.5 Beneficiaries.** The Executive may designate one (1) or more persons or entities as the primary and/or contingent beneficiaries of any amounts to be received under this Plan. Such designation must be in the form of a signed writing acceptable to the Board or the Board's designee. The Executive may make or change such designation at any time.

**8.6 Payment Obligation Absolute.** The Company's obligation to make the payments provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without limitation, any offset, counterclaim, recoupment, defense, or other right which the Company may have against the Executive or anyone else.

Except as provided in Sections 3.2(d) and 3.3(c) of this Plan, the Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Plan, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Plan.

**8.7 Contractual Rights to Benefits.** Subject to approval and ratification by the Board of Directors, this Plan establishes and vests in the Executive a contractual right to the benefits to which he or she is entitled hereunder. However, nothing herein contained shall require or be deemed to require, or prohibit or be deemed to prohibit, the Company to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

**8.8 Modification.** No provision of this Plan may be modified, waived, or discharged unless such modification, waiver, or discharge is agreed to in writing and signed by each and every Executive then covered by the Plan and by an authorized member of the Committee, or by the respective parties' legal representatives and successors.

**8.9 Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

**8.10 Applicable Law.** To the extent not preempted by the laws of the United States, the laws of the state of New Jersey shall be the controlling law in all matters relating to this Plan.

IN WITNESS WHEREOF, the Company has executed this Plan on this 24<sup>th</sup> day of May 2006.

ATTEST

NRG Energy, Inc.

/S/ DAVID W. CRANE

David W. Crane  
President and Chief Executive Officer

## 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under the Company's 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under the Company's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report the Company's 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 the Company's 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 W. CRANE  
David W. Crane  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 2, 2007

## CERTIFICATION

I, Robert C. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under the Company's 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under the Company's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report the Company's 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 the Company's 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 C. FLEXON

Robert C. Flexon  
Chief Financial Officer  
(Principal Financial Officer)

Date: May 2, 2007

## CERTIFICATION

I, Carolyn J. Burke, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under the Company's 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under the Company's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report the Company's 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 the Company's 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/ CAROLYN J. BURKE

Carolyn J. Burke

*Controller*

*(Principal Accounting Officer)*

Date: May 2, 2007

**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. on Form 10-Q for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "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: May 2, 2007

/s/ DAVID W. CRANE  
\_\_\_\_\_  
David W. Crane,  
*Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ ROBERT C. FLEXON  
\_\_\_\_\_  
Robert C. Flexon,  
*Chief Financial Officer*  
*(Principal Financial Officer)*

/s/ CAROLYN J. BURKE  
\_\_\_\_\_  
Carolyn J. Burke,  
*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.