NRG ENERGY, INC.
Form 10-Q
November 12, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended: September 30, 2013

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

Commission File Number: 001-15891

NRG Energy, Inc.
(Exact name of registrant as specified in its charter)

Delaware	41-1724239
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
211 Carnegie Center, Princeton, New Jersey	08540
(Address of principal executive offices)	(Zip Code)

(609) 524-4500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of October 31, 2013, there were 323,416,260 shares of common stock outstanding, par value $0.01 per share.

TABLE OF CONTENTS
Index

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q of NRG Energy, Inc., or NRG or the Company, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or 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 that 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 Item 1A — Risk Factors Related to NRG Energy, Inc., in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012, including, but not limited to, the following:

- General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;
- Volatile power supply costs and demand for power;
- Hazards customary to the power production industry and power generation operations such as fuel and electricity price volatility, unusual weather conditions, catastrophic weather-related or other damage to facilities, unscheduled generation outages, maintenance or repairs, unanticipated changes to fuel supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmission or gas pipeline system constraints and the possibility that NRG may not have adequate insurance to cover losses as a result of such hazards;
- The effectiveness of NRG's risk management policies and procedures, and the ability of NRG's counterparties to satisfy their financial commitments;
- Counterparties' collateral demands and other factors affecting NRG's liquidity position and financial condition;
- NRG's ability to operate its businesses efficiently, manage capital expenditures and costs tightly, and generate earnings and cash flows from its asset-based businesses, including NRG Yield, in relation to its debt and other obligations;
- NRG's ability to enter into contracts to sell power and procure fuel on acceptable terms and prices;
- The liquidity and competitiveness of wholesale markets for energy commodities;
- Government regulation, including compliance with regulatory requirements and changes in market rules, rates, tariffs and environmental laws;
- Price mitigation strategies and other market structures employed by ISOs or RTOs;
- 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;
- NRG's ability to receive federal loan guarantees or cash grants to support development projects;
- Operating and financial restrictions placed on NRG and its subsidiaries that are contained in the indentures governing NRG's outstanding notes, in NRG's Senior Credit Facility, and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally;
- NRG's ability to implement its strategy of developing and building new power generation facilities, including new solar projects;
- NRG's ability to implement its econrg strategy of finding ways to address environmental challenges while taking advantage of business opportunities;
- NRG's ability to implement its FORNRG strategy to increase cash from operations through operational and commercial initiatives, corporate efficiencies, asset strategies, and a range of other programs throughout the Company to reduce costs or generate revenues;
- NRG's ability to achieve its strategy of regularly returning capital to stockholders;
- NRG's ability to maintain and grow retail market share;
- NRG's ability to successfully evaluate investments in new businesses and growth initiatives;
- NRG's ability to successfully integrate and manage any acquired businesses; and
- NRG's ability to develop and maintain successful partnering relationships.

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

GLOSSARY OF TERMS

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

2012 Form 10-K	NRG's Annual Report on Form 10-K for the year ended December 31, 2012
ASC	The FASB Accounting Standards Codification, which the FASB established as the source of authoritative U.S. GAAP
ASU	Accounting Standards Updates - updates to the ASC
BACT	Best Available Control Technology
Baseload	Units expected to satisfy minimum baseload requirements for the system and produce electricity at an essentially constant rate and run continuously
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
Capital Allocation Program	NRG's plan of allocating capital between debt reduction, reinvestment in the business, share repurchases and shareholder dividends
CCUS	Carbon capture, utilization and storage project
CO_2	Carbon dioxide
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
CWA	Clean Water Act
Distributed Solar	Solar power projects, typically less than 20 MW in size, that primarily sell power produced to customers for usage on site, or are interconnected to sell power into the local distribution grid
DNREC	Delaware Department of Natural Resources and Environmental Control
EME	Edison Mission Energy
Energy Plus Holdings	Energy Plus Holdings LLC
EPA	U.S. Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas
ESEC	El Segundo Energy Center LLC
ESPP	Employee Stock Purchase Plan
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GenOn	GenOn Energy, Inc.
GenOn Americas Generation	GenOn Americas Generation, LLC
GenOn Americas Generation Senior Notes	GenOn Americas Generation's $850 million outstanding unsecured senior notes consisting of $450 million of 8.55% senior notes due 2021 and $400 million of 9.125% senior notes due 2031
GenOn Mid-Atlantic	GenOn Mid- Atlantic, LLC and, except where the context indicates otherwise, its subsidiaries, which include the coal generation units at two generating facilities under operating leases
GenOn Senior Notes	GenOn's $1.9 billion outstanding unsecured senior notes consisting of $725 million of 7.875% senior notes due 2017, $675 million of 9.5% senior notes due 2018, and $550 million of 9.875% senior notes due 2020
GHG	Greenhouse gases
Green Mountain Energy	Green Mountain Energy Company
GWh	Gigawatt hour
Heat Rate	

A measure of thermal efficiency computed by dividing the total BTU content of the fuel burned by the resulting kWhs generated. Heat rates can be expressed as either gross or net heat rates, depending whether the electricity output measured is gross or net generation and is generally expressed as BTU per net kWh

4

High Desert	TA - High Desert, LLC
High Desert Facility	High Desert's $82 million non-recourse project level financing facility under the Note Purchase and Private Shelf Agreement
Intermediate	Units expected to satisfy system requirements that are greater than baseload and less than peaking
ISO	Independent System Operator, also referred to as Regional Transmission Organization, or RTO
ITC	Investment Tax Credit
Kansas South	NRG Solar Kansas South LLC
kWh	Kilowatt-hours
LIBOR	London Inter-Bank Offered Rate
LTIPs	Collectively, the NRG Long-Term Incentive Plan and the NRG GenOn Long-Term Incentive Plan
Marsh Landing	NRG Marsh Landing, LLC (formerly known as GenOn Marsh Landing, LLC)
Mass	Residential and small business
MATS	Mercury and Air Toxics Standards promulgated by the EPA
MDE	Maryland Department of the Environment
Merger	The merger completed on December 14, 2012 by NRG and GenOn pursuant to the Merger Agreement
Merger Agreement	Agreement and Plan of Merger by and among NRG Energy, Inc., Plus Merger Corporation and GenOn Energy, Inc. dated as of July 20, 2012
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British Thermal Units
MOPR	Minimum Offer Price Rule
MW	Megawatt
MWh	Saleable megawatt hours, net of internal/parasitic load megawatt-hours
MWt	Megawatts Thermal Equivalent
NAAQS	National Ambient Air Quality Standards
Net Exposure	Counterparty credit exposure to NRG, net of collateral
Net Generation	The net amount of electricity produced, expressed in kWh or MWhs, that is the total amount of electricity generated (gross) minus the amount of electricity used during generation
NJDEP	New Jersey Department of Environmental Protection
NOL	Net Operating Loss
NOV	Notice of Violation
NO_x	Nitrogen oxide
NPNS	Normal Purchase Normal Sale
NRC	U.S. Nuclear Regulatory Commission
NRG Yield	Reporting segment including the following projects: Alpine, Avenal, Avra Valley, AZ DG Solar, Blythe, Borrego, CVSR, GenConn, Marsh Landing, PFMG DG Solar, Roadrunner, South Trent and Thermal.
NRG Yield, Inc.	NRG Yield, Inc., the owner of 34.5% of NRG Yield LLC with a controlling interest, and issuer of publicly held shares of Class A common stock
NRG Yield LLC	NRG Yield LLC, which owns, through its wholly owned subsidiary, NRG Yield Operating LLC, all of the assets contributed to NRG Yield LLC in connection with the initial public offering of Class A common stock of NRG Yield, Inc.
NSPS	New Source Performance Standards
NSR	New Source Review

Nuclear Decommissioning Trust Fund	NRG's nuclear decommissioning trust fund assets, which are for the Company's portion of the decommissioning of the STP, units 1 & 2
NYISO	New York Independent System Operator
NYSPSC	New York State Public Service Commission
OCI	Other comprehensive income

PADEP	Pennsylvania Department of Environmental Protection
Peaking	Units expected to satisfy demand requirements during the periods of greatest or peak load on the system
PG&E	Pacific Gas & Electric Company
PJM	PJM Interconnection, LLC
PPA	Power Purchase Agreement
PUCT	Public Utility Commission of Texas
Reliant Energy	Reliant Energy Retail Services, LLC
Repowering	Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, generally to achieve a substantial emissions reduction, increase facility capacity, and improve system efficiency
Retail Business	NRG's retail energy brands, including Reliant, Green Mountain, Energy Plus and NRG Residential Solutions
Revolving Credit Facility	The Company's $2.5 billion revolving credit facility due 2018, a component of the Senior Credit Facility
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must Run
RSS	Reliability Support Service
Schkopau	Kraftwerk Schkopau Betriebsgesellschaft mbH
Senior Credit Facility	NRG's senior secured facility, comprised of the Term Loan Facility and the Revolving Credit Facility
Senior Notes	The Company's $5.7 billion outstanding unsecured senior notes, consisting of $1.1 billion of 7.625% senior notes due 2018, $607 million of 8.5% senior notes due 2019, $800 million of 7.625% senior notes due 2019, $1.1 billion of 8.25% senior notes due 2020, $1.1 billion of 7.875% senior notes due 2021, and $990 million of 6.625% senior notes due 2023
SO_2	Sulfur dioxide
STP	South Texas Project — nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
Term Loan Facility	The Company's $2.0 billion term loan facility due 2018, a component of the Senior Credit Facility
Texas Genco	Texas Genco LLC, now referred to as the Company's Texas Region
U.S.	United States of America
U.S. DOE	U.S. Department of Energy
U.S. DOJ	U.S. Department of Justice
U.S. GAAP	Accounting principles generally accepted in the United States
Utility Scale Solar	Solar power projects, typically 20 MW or greater in size (on an alternating current basis), that are interconnected into the transmission or distribution grid to sell power at a wholesale level
VaR	Value at Risk
VIE	Variable Interest Entity

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

	Three months ended September 30,		Nine months ended September 30,	
(In millions, except for per share amounts)	2013	2012	2013	2012
Operating Revenues				
Total operating revenues	$3,490	$2,331	$8,500	$6,359
Operating Costs and Expenses				
Cost of operations	2,355	1,740	6,179	4,660
Depreciation and amortization	318	239	921	703
Selling, general and administrative	229	224	671	613
Acquisition-related transaction and integration costs	26	18	95	18
Development activity expenses	27	24	63	52
Total operating costs and expenses	2,955	2,245	7,929	6,046
Operating Income	535	86	571	313
Other Income/(Expense)				
Equity in (losses)/earnings of unconsolidated affiliates	(5)	4	6	26
Other income, net	5	9	9	12
Loss on debt extinguishment	(1)	(41)	(50)	(41)
Interest expense	(228)	(163)	(630)	(495)
Total other expense	(229)	(191)	(665)	(498)
Income/(Loss) Before Income Taxes	306	(105)	(94)	(185)
Income tax expense/(benefit)	163	(113)	(47)	(246)
Net Income/(Loss)	143	8	(47)	61
Less: Net income attributable to noncontrolling interest	19	9	27	18
Net Income/(Loss) Attributable to NRG Energy, Inc.	124	(1)	(74)	43
Dividends for preferred shares	2	2	7	7
Income/(Loss) Available for Common Stockholders	$122	$(3)	$(81)	$36
Earnings/(Loss) Per Share Attributable to NRG Energy, Inc. Common Stockholders				
Weighted average number of common shares outstanding — basic	323	228	323	228
Earnings/(Loss) per Weighted Average Common Share — Basic	$0.38	$(0.01)	$(0.25)	$0.16
Weighted average number of common shares outstanding — diluted	327	228	323	230
Earnings/(Loss) per Weighted Average Common Share — Diluted	$0.37	$(0.01)	$(0.25)	$0.16
Dividends Per Common Share	$0.12	$0.09	$0.33	$0.09

See accompanying notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(In millions)			
Net Income/(Loss)	$143	$8	$(47)	$61
Other Comprehensive (Loss)/Income, net of tax				
Unrealized (loss)/gain on derivatives, net of income tax benefit of $5, $24, $2 and $76	(16)	(43)	8	(132)
Foreign currency translation adjustments, net of income tax benefit of $1, $0, $13 and $1	5	1	(14)	(1)
Reclassification adjustment for translation gain realized upon sale of Schkopau, net of income tax expense of $0, $6, $0 and $6	—	(11)	—	(11)
Available-for-sale securities, net of income tax expense of $0, $1, $1 and $1	—	2	2	2
Defined benefit plans, net of tax expense of $0, $0, $4 and $0	—	—	25	—
Other comprehensive (loss)/income	(11)	(51)	21	(142)
Comprehensive Income/(Loss)	132	(43)	(26)	(81)
Less: Comprehensive income attributable to noncontrolling interest	18	9	26	18
Comprehensive Income/(Loss) Attributable to NRG Energy, Inc.	114	(52)	(52)	(99)
Dividends for preferred shares	2	2	7	7
Comprehensive Income/(Loss) Available for Common Stockholders	$112	$(54)	$(59)	$(106)

See accompanying notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except shares)	September 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$2,129	$2,087
Funds deposited by counterparties	122	271
Restricted cash	307	217
Accounts receivable — trade, less allowance for doubtful accounts of $41 and $32	1,366	1,061
Inventory	861	911
Derivative instruments	1,389	2,644
Cash collateral paid in support of energy risk management activities	288	229
Deferred income taxes	—	56
Renewable energy grant receivable	345	58
Prepayments and other current assets	442	401
Total current assets	7,249	7,935
Property, plant and equipment, net of accumulated depreciation of $6,264 and $5,417	20,600	20,241
Other Assets		
Equity investments in affiliates	626	676
Notes receivable, less current portion	76	79
Goodwill	1,953	1,956
Intangible assets, net of accumulated amortization of $1,915 and $1,706	1,141	1,200
Nuclear decommissioning trust fund	524	473
Derivative instruments	506	662
Deferred income taxes	1,499	1,282
Other non-current assets	689	600
Total other assets	7,014	6,928
Total Assets	$34,863	$35,104
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	$911	$147
Accounts payable	1,140	1,171
Derivative instruments	1,064	1,981
Deferred income taxes	112	—
Cash collateral received in support of energy risk management activities	122	271
Accrued expenses and other current liabilities	1,033	1,085
Total current liabilities	4,382	4,655
Other Liabilities		
Long-term debt and capital leases	15,802	15,736
Nuclear decommissioning reserve	290	354
Nuclear decommissioning trust liability	303	273
Deferred income taxes	50	55
Derivative instruments	372	500
Out-of-market contracts	1,157	1,231
Other non-current liabilities	1,377	1,553
Total non-current liabilities	19,351	19,702

Total Liabilities	23,733	24,357
3.625% convertible perpetual preferred stock (at liquidation value, net of issuance costs)	249	249
Commitments and Contingencies		
Stockholders’ Equity		
Common stock	4	4
Additional paid-in capital	7,843	7,587
Retained earnings	4,272	4,459
Less treasury stock, at cost — 77,347,528 and 76,505,718 shares, respectively	(1,942)	(1,920)
Accumulated other comprehensive loss	(129)	(150)
Noncontrolling interest	833	518
Total Stockholders’ Equity	10,881	10,498
Total Liabilities and Stockholders’ Equity	$34,863	$35,104

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30, 2013	2012
	(In millions)	
Cash Flows from Operating Activities		
Net (loss)/income	$(47)	$61
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Distributions and equity in earnings of unconsolidated affiliates	23	8
Depreciation and amortization	921	703
Provision for bad debts	49	40
Amortization of nuclear fuel	27	29
Amortization of financing costs and debt discount/premiums	(22)	25
Adjustment to loss on debt extinguishment	(15)	8
Amortization of intangibles and out-of-market contracts	75	108
Amortization of unearned equity compensation	32	27
Changes in deferred income taxes and liability for uncertain tax benefits	39	(261)
Changes in nuclear decommissioning trust liability	25	25
Changes in derivative instruments	189	360
Changes in collateral deposits supporting energy risk management activities	(59)	213
Gain on sale of emission allowances	(8)	(3)
Cash used by changes in other working capital	(406)	(285)
Net Cash Provided by Operating Activities	823	1,058
Cash Flows from Investing Activities		
Acquisitions of businesses, net of cash acquired	(374)	(40)
Capital expenditures	(1,581)	(2,474)
Increase in restricted cash, net	(67)	(96)
(Increase)/decrease in restricted cash to support equity requirements for U.S. DOE funded projects	(20)	151
Increase in notes receivable	(22)	(22)
Investments in nuclear decommissioning trust fund securities	(369)	(341)
Proceeds from sales of nuclear decommissioning trust fund securities	344	316
Proceeds from renewable energy grants	52	49
Proceeds from sale of assets, net of cash disposed of	13	137
Other	(7)	(9)
Net Cash Used by Investing Activities	(2,031)	(2,329)
Cash Flows from Financing Activities		
Payment of dividends to common and preferred stockholders	(113)	(28)
Payment for treasury stock	(25)	—
Net receipts from/(payments for) settlement of acquired derivatives that include financing elements	177	(65)
Proceeds from issuance of long-term debt	1,605	2,541
Contributions and sale proceeds from noncontrolling interest in subsidiaries	504	316
Proceeds from issuance of common stock	14	—
Payment of debt issuance costs	(43)	(30)
Payments for short and long-term debt	(868)	(955)

Net Cash Provided by Financing Activities	1,251	1,779
Effect of exchange rate changes on cash and cash equivalents	(1)	(3)
Net Increase in Cash and Cash Equivalents	42	505
Cash and Cash Equivalents at Beginning of Period	2,087	1,105
Cash and Cash Equivalents at End of Period	$2,129	$1,610

See accompanying notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1 — Basis of Presentation
NRG Energy, Inc., or NRG or the Company, is historically a competitive power and energy company that aspires to be a leader in the way residential, industrial and commercial consumers think about, use, produce and deliver energy and energy services in major competitive power markets in the United States. NRG engages in the ownership and operation of power generation facilities; the trading of energy, capacity and related products; the transacting in and trading of fuel and transportation services and the direct sale of energy, services, and innovative, sustainable products to retail customers in competitive markets in which NRG owns generation. The Company sells retail electric products and services under the name “NRG” and various brands owned by NRG. Finally, NRG is a clean energy leader and is focused on the deployment and commercialization of potentially transformative technologies, like electric vehicles, Distributed Solar and smart meter/home automation technology that collectively have the potential to fundamentally change the nature of the power industry, including a substantial change in the role of the national electric transmission grid and distribution system. On December 14, 2012, the Company acquired GenOn as further described in Note 3, Business Acquisitions and Dispositions, and has reported results of operations from the acquisition date forward.
The Company formed NRG Yield, Inc. to own and operate a portfolio of contracted generation assets and thermal infrastructure assets that have historically been owned and/or operated by NRG and its subsidiaries. On July 22, 2013, NRG Yield, Inc. closed its initial public offering of 22,511,250 shares of Class A common stock at a price of $22 per share. Net proceeds to NRG Yield, Inc. from the sale of the Class A common stock were approximately $468 million, net of underwriting discounts and commissions of $27 million. The Company retained 42,738,250 shares of Class B common stock of NRG Yield, Inc. As a result, the Company owns a controlling interest in NRG Yield, Inc. and will consolidate this entity for financial reporting purposes. In addition, the Company retained a 65.5% interest in NRG Yield LLC. The initial public offering represented the sale of a 34.5% interest in NRG Yield LLC. NRG Yield LLC's initial assets consist of three natural gas or dual-fired facilities, eight utility-scale solar and wind generation facilities, two portfolios of distributed solar facilities that collectively represent 1,324 net MW, and thermal infrastructure assets with an aggregate steam and chilled water capacity of 1,098 net MWt and electric generation capacity of 123 net MW.
The following table represents the structure of NRG Yield, Inc. after the initial public offering:

The Company has revised its segment reporting to include an NRG Yield segment, as further described in Note 11, Segment Reporting.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the SEC's regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to the financial statements in the Company's 2012 Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly the Company's consolidated financial position as of September 30, 2013, and the results of operations, comprehensive income/(loss) and cash flows for the three and nine months ended September 30, 2013, and 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes. The reclassifications did not affect results from operations or cash flows. The Company reclassified certain plant-related expenses from selling, general and administrative to cost of operations and certain general and administrative expenses to development activity expenses.

Note 2 — Summary of Significant Accounting Policies
Development Activity Expenses
Development activity expenses include project development costs, which are expensed in the preliminary stages of a project and capitalized when the project is deemed to be commercially viable. Commercial viability is determined by one or a series of actions including, among others, Board of Director approval pursuant to a formal project plan that subjects the Company to significant future obligations that can only be discharged by the use of a Company asset. When a project is available for operations, capitalized project development costs are reclassified to property, plant and equipment and amortized on a straight-line basis over the estimated useful life of the project's related assets. Capitalized costs are charged to expense if a project is abandoned or management otherwise determines the costs to be unrecoverable.
Development activity expenses also include selling, general, and administrative expenses associated with the current operations of certain developing businesses including residential solar, electric vehicles, waste-to-energy, carbon capture and other emerging technologies. The revenue associated with these businesses was immaterial for the three and nine months ended September 30, 2013 and 2012. When it is determined that a business will remain an ongoing part of the Company's operations or when operating revenues become material relative to the operating costs of the underlying business, the Company no longer classifies a business as a development activity.
Other Cash Flow Information
NRG’s investing activities exclude capital expenditures of $127 million which were accrued and unpaid at September 30, 2013, primarily for solar projects under construction.
Noncontrolling Interest
The following table reflects the changes in NRG's noncontrolling interest balance:

	(In millions)
Balance as of December 31, 2012	$518
Contributions from noncontrolling interest	289
Comprehensive income attributable to noncontrolling interest	26
Balance as of September 30, 2013	$833

The contributions from noncontrolling interest primarily reflect the value of the underlying net assets sold to the NRG Yield, Inc. Class A common shareholders in the initial public offering. The transaction resulted in a gain of $221 million, which was recorded in NRG's additional paid-in capital balance.
Recent Accounting Developments
ASU 2011-11 - Effective January 1, 2013, the Company adopted the provisions of ASU No. 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities, or ASU No. 2011-11, and began providing enhanced disclosures regarding the effect or potential effect of netting arrangements on an entity's financial position by improving information about financial instruments and derivative instruments that either (1) offset in accordance with either ASC 210-20-45 or ASC 810-20-45 or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Reporting entities are required to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosures required by ASU No. 2011-11 are required to be adopted retroactively. As this guidance provides only disclosure requirements, the adoption of this standard did not impact the Company's results of operations, cash flows or financial position.
ASU 2013-02 - Effective January 1, 2013, the Company adopted the provisions of ASU No. 2013-02, Other Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, or ASU No. 2013-02, and began reporting the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income within the notes to the financial statements if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income in the same reporting period. For other amounts not required by U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures which provide additional information about the amounts. The provisions of ASU No. 2013-02 are required to be adopted prospectively. As this guidance provides only presentation requirements, the adoption of this standard did not impact the Company's results of

operations, cash flows or financial position.

Note 3 — Business Acquisitions and Dispositions

Pending Acquisition

On October 18, 2013, the Company entered into an agreement to acquire substantially all of the assets of Edison Mission Energy, or EME. EME, through its subsidiaries and affiliates, owns, operates, and leases a portfolio of 8,000 MW consisting of wind energy facilities and coal- and gas-fired generating facilities. On December 17, 2012, EME and certain of its direct and indirect subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code, or the Bankruptcy Code. EME was deconsolidated from its parent company, Edison International, for financial statement purposes but not for tax purposes on December 17, 2012. On May 2, 2013, certain other subsidiaries of EME filed voluntary petitions for relief under the Bankruptcy Code.

The Company will pay an aggregate purchase price of $2.6 billion (subject to adjustment), which will consist of 12,671,977 shares of NRG common stock (valued at $350 million based upon the volume-weighted average trading price over the 20 trading days prior to October 18, 2013) with the balance to be paid in cash. The Company expects to fund the net cash portion of the purchase price using a combination of cash on hand, including acquired cash on hand of $1.1 billion, and approximately $700 million in newly-issued corporate debt. The Company also expects to assume non-recourse debt of approximately $1.5 billion.

In connection with the transaction, NRG has agreed to certain conditions with the parties to the Powerton and Joliet, or POJO, sale-leaseback transaction subject to which an NRG subsidiary will assume the POJO leveraged leases and NRG will guarantee the remaining payments under each lease. In connection with this agreement, NRG has committed to fund up to $350 million in capital expenditures for plant modifications at Powerton and Joliet to install controls to comply with MATS.

The acquisition is subject to customary conditions, including approval of the U.S. Bankruptcy Court for the Northern District of Illinois and required regulatory approvals, and is expected to close by the first quarter of 2014. However, EME may continue to solicit alternative transaction proposals from third parties through December 6, 2013. Under certain circumstances, including if EME enters into or seeks approval of an alternative transaction, NRG will receive a cash fee of $65 million plus expense reimbursement. There are no assurances that the conditions to the acquisition of EME will be satisfied, that EME will not seek or enter into an alternative transaction, or that the acquisition of EME will be consummated on the terms agreed to, if at all.

Gregory Acquisition

On August 7, 2013, NRG Texas Gregory, LLC, a wholly owned subsidiary of NRG, acquired Gregory Power Partners, L.P. for approximately $245 million in cash, net of $32 million cash acquired. Gregory is a cogeneration plant located in Corpus Christi, Texas, which has generation capacity of 388 MW and steam capacity of 160 MWt. The Gregory cogeneration plant provides steam, processed water and a small percentage of its electrical generation to the Corpus Christi Sherwin Alumina plant. The majority of the plant's generation is available for sale in the ERCOT market. The acquisition was recorded as a business combination under ASC 805, with identifiable assets acquired and liabilities assumed provisionally recorded at their estimated fair values on the acquisition date. The purchase price was provisionally allocated primarily to property, plant, and equipment. The initial accounting for the business combination is not complete because the evaluations necessary to assess the fair value of certain net assets acquired are still in process.

GenOn Acquisition

On December 14, 2012, NRG acquired GenOn Energy, Inc., or GenOn. GenOn, a generator of wholesale electricity, has baseload, intermediate and peaking power generation facilities using coal, natural gas and oil, totaling approximately 21,440 MW. Consideration for the acquisition was valued at $2.2 billion and was comprised of 0.1216 shares of NRG common stock for each outstanding share of GenOn, including restricted stock units outstanding, on the acquisition date, except for fractional shares which were paid in cash. The Company issued 93.9 million shares of NRG common stock, or 29% of total common shares outstanding following the closing of the transaction. The acquisition was recorded as a business combination, with identifiable assets acquired and liabilities assumed provisionally recorded at their estimated fair values on the acquisition date. The initial accounting for the business combination is not complete because the evaluations necessary to assess the fair value of certain net assets acquired are still in process. See Note 3, Business Acquisitions and Dispositions, in the Company's 2012 Form 10-K for additional information related to the GenOn acquisition.

The following table summarizes the provisional amounts recognized for assets acquired and liabilities assumed as of the acquisition date as well as adjustments made during the nine months ended September 30, 2013 to the amounts initially recorded in 2012 due to the ongoing evaluation of initial estimates. The measurement period adjustments were recorded as an adjustment to the gain on bargain purchase and did not have a significant impact on the Company's consolidated statements of operations, cash flows or financial position in any period. The allocation of the purchase price may be modified up to one year from the date of the acquisition as more information is obtained about the fair value of assets acquired and liabilities assumed.

(In millions)	Amounts Recognized as of Acquisition Date (as previously reported)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (as adjusted)
Assets			
Cash	$983	$—	$983
Current and non-current assets	1,385	(18)	1,367
Property, plant and equipment	3,936	(27)	3,909
Derivative assets	1,157	—	1,157
Deferred income taxes	2,265	21	2,286
Total assets acquired	$9,726	$(24)	$9,702
Liabilities			
Current and non-current liabilities	$1,312	$(7)	$1,305
Out-of-market contracts and leases	1,064	15	1,079
Derivative liabilities	399	—	399
Long-term debt and capital leases	4,203	3	4,206
Total liabilities assumed	6,978	11	6,989
Net assets acquired	2,748	(35)	2,713
Consideration paid	2,188	—	2,188
Gain on bargain purchase	$560	$(35)	$525

2012 Dispositions

Agua Caliente

On January 18, 2012, the Company sold a 49% interest in NRG Solar AC Holdings LLC, the indirect owner of the Agua Caliente project, to MidAmerican Energy Holdings Company, or MidAmerican. A majority of the $122 million of cash consideration received at closing represented 49% of construction costs funded by NRG's equity contributions. The excess of the consideration over the carrying value of the divested interest was recorded to additional paid-in capital. MidAmerican will fund its proportionate share of future equity contributions and other credit support for the project. NRG continues to hold a majority interest in and consolidates the project.

Saale Energie GmbH

On July 17, 2012, the Company sold its 100% interest in Saale Energie GmbH, which holds a 41.9% interest in Kraftwerke Schkopau GbR and a 44.4% interest in Kraftwerke Schkopau Betriebsgesllschaft mbH, collectively, Schkopau. Schkopau holds a fixed 400 MW participation in the 900 MW Schkopau Power Station located in Germany. In connection with the sale of Schkopau, NRG entered into a foreign currency swap contract to hedge the impact of exchange rate fluctuations on the sale proceeds of €141 million. The Company received cash consideration, net of selling expenses, of $174 million, which included $4 million related to the settlement of the swap contract that was recorded as a gain within Other income, net in the quarter ended September 30, 2012. The cash consideration approximated the book value of the net assets, including cash of $38 million, on the date of the sale.

Note 4 — Fair Value of Financial Instruments

This footnote should be read in conjunction with the complete description under Note 4, Fair Value of Financial Instruments, to the Company's 2012 Form 10-K.

For cash and cash equivalents, funds deposited by counterparties, accounts and other receivables, accounts payable, restricted cash, and cash collateral paid and received in support of energy risk management activities, the carrying amount approximates fair value because of the short-term maturity of those instruments and are classified as Level 1 within the fair value hierarchy.

The estimated carrying amounts and fair values of NRG's recorded financial instruments not carried at fair market value are as follows:

	As of September 30, 2013		As of December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Assets:				
Notes receivable [(a)]	$107	$107	$88	$88
Liabilities:				
Long-term debt, including current portion	16,699	17,061	15,866	16,492

(a) Includes the current portion of notes receivable which is recorded in prepayments and other current assets on the Company's consolidated balance sheets.

The fair value of the Company's publicly-traded long-term debt is based on quoted market prices and is classified as Level 1 within the fair value hierarchy. The fair value of non publicly-traded long-term debt and certain notes receivable of the Company are based on expected future cash flows discounted at market interest rates, or current interest rates for similar instruments with equivalent credit quality, and are classified as Level 3 within the fair value hierarchy.

Recurring Fair Value Measurements

Debt securities, equity securities, and trust fund investments, which are comprised of various U.S. debt and equity securities, and derivative assets and liabilities, are carried at fair market value.

The following tables present assets and liabilities measured and recorded at fair value on the Company's condensed consolidated balance sheets on a recurring basis and their level within the fair value hierarchy:

	As of September 30, 2013			
	Fair Value			
(In millions)	Level 1	Level 2	Level 3	Total
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities	$—	$—	$15	$15
Other [(a)]	37	—	—	37
Trust fund investments:				
Cash and cash equivalents	2	—	—	2
U.S. government and federal agency obligations	51	4	—	55
Federal agency mortgage-backed securities	—	58	—	58
Commercial mortgage-backed securities	—	12	—	12
Corporate debt securities	—	60	—	60
Equity securities	281	—	55	336
Foreign government fixed income securities	—	2	—	2
Derivative assets:				
Commodity contracts	436	1,337	111	1,884
Interest rate contracts	—	11	—	11
Total assets	$807	$1,484	$181	$2,472
Derivative liabilities:				

Commodity contracts	$344	$892	$118	$1,354
Interest rate contracts	—	82	—	82
Total liabilities	$344	$974	$118	$1,436

(a) Primarily consists of mutual funds held in rabbi trusts for non-qualified deferred compensation plans for certain former employees.

	As of December 31, 2012			
	Fair Value			
(In millions)	Level 1	Level 2	Level 3	Total
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities	$—	$—	$12	$12
Other [(a)]	44	—	—	44
Trust fund investments:				
Cash and cash equivalents	10	—	—	10
U.S. government and federal agency obligations	34	—	—	34
Federal agency mortgage-backed securities	—	59	—	59
Commercial mortgage-backed securities	—	9	—	9
Corporate debt securities	—	80	—	80
Equity securities	233	—	47	280
Foreign government fixed income securities	—	2	—	2
Derivative assets:				
Commodity contracts	1,457	1,711	135	3,303
Interest rate contracts	—	3	—	3
Total assets	$1,778	$1,864	$194	$3,836
Derivative liabilities:				
Commodity contracts	$1,144	$1,047	$147	$2,338
Interest rate contracts	—	143	—	143
Total liabilities	$1,144	$1,190	$147	$2,481

(a) Primarily consists of mutual funds held in rabbi trusts for non-qualified deferred compensation plans for certain former employees.

There were no transfers during the three and nine months ended September 30, 2013 and 2012, between Levels 1 and 2. The following tables reconcile, for the three and nine months ended September 30, 2013 and 2012, the beginning and ending balances for financial instruments that are recognized at fair value in the consolidated financial statements, at least annually, using significant unobservable inputs:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)							
	Three months ended September 30, 2013				Nine months ended September 30, 2013			
(In millions)	Debt Securities	Trust Fund Investments	Derivatives[(a)]	Total	Debt Securities	Trust Fund Investments	Derivatives[(a)]	Total
Beginning balance	$15	$50	$(12)	$53	$12	$47	$(12)	$47
Total gains/(losses) — realized/unrealized:								
Included in earnings	—	—	14	14	—	—	(4)	(4)
Included in OCI	—	—	—	—	3	—	—	3
Included in nuclear decommissioning obligations	—	5	—	5	—	7	—	7
Purchases	—	—	4	4	—	1	(3)	(2)
Transfers into Level 3 [(b)]	—	—	(36)	(36)	—	—	(9)	(9)
Transfers out of Level 3 [(b)]	—	—	23	23	—	—	21	21
Ending balance as of September 30, 2013	$15	$55	$(7)	$63	$15	$55	$(7)	$63
	$—	$—	$(7)	$(7)	$—	$—	$(4)	$(4)

Gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held as of September 30, 2013	

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

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

(In millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Three months ended September 30, 2012 Debt Securities	Trust Fund Investments	Derivatives[(a)]	Total	Nine months ended September 30, 2012 Debt Securities	Trust Fund Investments	Derivatives[(a)]	Total
Beginning balance	$9	$ 43	$ 171	$223	$7	$ 42	$ 8	$57
Total (losses)/gains — realized/unrealized:								
Included in earnings	—	—	(9)	(9)	—	—	(3)	(3)
Included in OCI	2	—	—	2	4	—	—	4
Included in nuclear decommissioning obligations	—	3	—	3	—	3	—	3
Purchases	—	—	(109)	(109)	—	1	(1)	—
Transfers into Level 3 [(b)]	—	—	(31)	(31)	—	—	4	4
Transfers out of Level 3 [(b)]	—	—	(20)	(20)	—	—	(6)	(6)
Ending balance as of September 30, 2012	$11	$ 46	$ 2	$59	$11	$ 46	$ 2	$59
(Losses)/gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held as of September 30, 2012	$—	$ —	$ (5)	$(5)	$—	$ —	$ 1	$1

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

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

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

Derivative Fair Value Measurements

A portion of NRG's contracts are exchange-traded contracts with readily available quoted market prices. A majority of NRG's contracts are non-exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter and on-line exchanges. For the majority of NRG's markets, the Company receives quotes from multiple sources. To the extent that NRG receives multiple quotes, the Company's prices reflect the average of the bid-ask mid-point prices obtained from all sources that NRG believes provide the most liquid market for the commodity. If the Company receives one quote, then the mid-point of the bid-ask spread for that quote is used. The terms for which such price information is available vary by commodity, region and product. A significant portion of the fair value of the Company's derivative portfolio is based on price quotes from brokers in active markets who regularly facilitate those transactions and the Company believes such price quotes are executable. The Company does not use third party sources that derive price based on proprietary models or market surveys. The remainder of the assets and liabilities represent contracts for which external sources or observable market quotes are not available for the whole term or for certain delivery months or the contracts are retail and load following power contracts. These contracts are valued using various valuation techniques including but not limited to internal models that apply fundamental analysis of the market and corroboration with similar markets. As of September 30, 2013, contracts valued with prices provided by models and other valuation techniques make up 6% of the total derivative assets and 8% of the total derivative liabilities.

The fair value of each contract is discounted using a risk free interest rate. In addition, the Company applies a credit reserve to reflect credit risk which is calculated based on published default probabilities. To the extent that NRG's net exposure under a specific master agreement is an asset, the Company uses the counterparty's default swap rate. If the net exposure under a specific master agreement is a liability, the Company uses NRG's default swap rate. The credit reserve is added to the discounted fair value to reflect the exit price that a market participant would be willing to receive to assume NRG's liabilities or that a market participant would be willing to pay for NRG's assets. As of September 30, 2013, the credit reserve resulted in a $1 million decrease in fair value which is composed of a $1 million gain in OCI, and a $2 million loss in operating revenue and cost of operations. As of September 30, 2012, the credit reserve resulted in a $9 million increase in fair value which is composed of a $4 million gain in OCI and a $5 million gain in operating revenue and cost of operations.

Concentration of Credit Risk

In addition to the credit risk discussion as disclosed in Note 2, Summary of Significant Accounting Policies, to the Company's 2012 Form 10-K, the following is a discussion of the concentration of credit risk for the Company's contractual obligations. Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties pursuant to the terms of their contractual obligations. NRG is exposed to counterparty credit risk through various activities including wholesale sales, fuel purchases and retail supply arrangements, and retail customer credit risk through its retail load activities.

Counterparty Credit Risk

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

As of September 30, 2013, counterparty credit exposure, excluding credit risk exposure under certain long term agreements, was $975 million and NRG held collateral (cash and letters of credit) against those positions of $44 million, resulting in a net exposure of $931 million. Approximately 85% of the Company's exposure before collateral is expected to roll off by the end of 2014. Counterparty credit exposure is valued through observable market quotes and discounted at a risk free interest rate. The following tables highlight net counterparty credit exposure by industry sector and by counterparty credit quality. Net counterparty credit exposure is defined as the aggregate net asset position for NRG with counterparties where netting is permitted under the enabling agreement and includes all cash flow, mark-to-market and NPNS, and non-derivative transactions. The exposure is shown net of collateral held, and includes amounts net of receivables or payables.

Category	Net Exposure [a] (% of Total)	
Financial institutions	58	%
Utilities, energy merchants, marketers and other	34	
ISOs	6	
Coal and emissions	2	
Total as of September 30, 2013	100	%

Category	Net Exposure [a] (% of Total)	
Investment grade	96	%
Non-rated [b]	4	
Total as of September 30, 2013	100	%

(a) Counterparty credit exposure excludes uranium and coal transportation contracts because of the unavailability of market prices.

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

NRG has counterparty credit risk exposure to certain counterparties, each of which, represent more than 10% of total net exposure discussed above. The aggregate of such counterparties' exposure was $316 million. Changes in hedge positions and market prices will affect credit exposure and counterparty concentration. Given the credit quality, diversification and term of the exposure in the portfolio, NRG does not anticipate a material impact on the Company's financial position or results of operations from nonperformance by any of NRG's counterparties.

Counterparty credit exposure described above excludes credit risk exposure under certain long term agreements, including California tolling agreements, South Central load obligations, and solar PPAs. As external sources or observable market quotes are not available to estimate such exposure, the Company values these contracts based on various techniques including, but not limited to, internal models based on a fundamental analysis of the market and extrapolation of observable market data with similar characteristics. Based on these valuation techniques, as of September 30, 2013, aggregate credit risk exposure managed by NRG to these counterparties was approximately $2.3 billion, including $649 million related to assets of NRG Yield, Inc., for the next five years. This amount excludes potential credit exposures for projects with long term PPAs that have not reached commercial operations. The majority of these power contracts are with utilities or public power entities with strong credit quality and public utility commission or other regulatory support. However, such regulated utility counterparties can be impacted by changes in government regulations, which NRG is unable to predict.

Retail Customer Credit Risk

NRG is exposed to retail credit risk through the Company's retail electricity providers, which serve commercial, industrial and governmental/institutional customers and the Mass market. Retail credit risk results when a customer fails to pay for products or services rendered. The losses may result from both nonpayment of customer accounts receivable and the loss of in-the-money forward value. NRG manages retail credit risk through the use of established credit policies that include monitoring of the portfolio, and the use of credit mitigation measures such as deposits or prepayment arrangements.

As of September 30, 2013, the Company's retail customer credit exposure was diversified across many customers and various industries, as well as government entities.

Note 5 — Nuclear Decommissioning Trust Fund

NRG's Nuclear Decommissioning Trust Fund assets are comprised of securities classified as available-for-sale and recorded at fair value based on actively quoted market prices. NRG accounts for the Nuclear Decommissioning Trust Fund in accordance with ASC 980, Regulated Operations, because the Company's nuclear decommissioning activities are subject to approval by the PUCT with regulated rates that are designed to recover all decommissioning costs and that can be charged to and collected from the ratepayers per PUCT mandate. Since the Company is in compliance with PUCT rules and regulations regarding decommissioning trusts and the cost of decommissioning is the responsibility of the Texas ratepayers, not NRG, all realized and unrealized gains or losses (including other-than-temporary impairments) related to the Nuclear Decommissioning Trust Fund are recorded to nuclear decommissioning trust liability and are not included in net income or accumulated other comprehensive income, consistent with regulatory treatment.

The following table summarizes the aggregate fair values and unrealized gains and losses (including other-than-temporary impairments) for the securities held in the trust funds, as well as information about the contractual maturities of those securities.

	As of September 30, 2013				As of December 31, 2012		
(In millions, except otherwise noted)	Fair Value	Unrealized Gains	Unrealized Losses	Weighted-average Maturities (In years)	Fair Value	Unrealized Gains [(a)]	Weighted-average Maturities (In years)
Cash and cash equivalents	$2	$—	$—	—	$10	$—	—
U.S. government and federal agency obligations	54	2	1	9	33	2	10
Federal agency mortgage-backed securities	58	1	1	24	59	2	23
Commercial mortgage-backed securities	12	—	—	29	9	—	30
Corporate debt securities	60	2	1	9	80	4	11
Equity securities	336	187	—	—	280	143	—
Foreign government fixed income securities	2	—	—	9	2	—	6

Total	$524	$192	$3	$473	$151

(a)There were no unrealized losses as of December 31, 2012.

The following table summarizes proceeds from sales of available-for-sale securities and the related realized gains and losses from these sales. The cost of securities sold is determined on the specific identification method.

	Nine months ended September 30,	
	2013	2012
	(In millions)	
Realized gains	$10	$8
Realized losses	7	5
Proceeds from sale of securities	344	316

20

Note 6 — Accounting for Derivative Instruments and Hedging Activities

This footnote should be read in conjunction with the complete description under Note 5, Accounting for Derivative Instruments and Hedging Activities, to the Company's 2012 Form 10-K.

Energy-Related Commodities

As of September 30, 2013, NRG had energy-related derivative financial instruments extending through 2015, which are designated as cash flow hedges.

Interest Rate Swaps

NRG is exposed to changes in interest rates through the Company's issuance of variable and fixed rate debt. In order to manage the Company's interest rate risk, NRG enters into interest rate swap agreements. As of September 30, 2013, the Company had interest rate derivative instruments on non-recourse debt extending through 2030, the majority of which are designated as cash flow hedges.

Volumetric Underlying Derivative Transactions

The following table summarizes the net notional volume buy/(sell) of NRG's open derivative transactions broken out by commodity, excluding those derivatives that qualified for the NPNS exception as of September 30, 2013 and December 31, 2012. Option contracts are reflected using delta volume. Delta volume equals the notional volume of an option adjusted for the probability that the option will be in-the-money at its expiration date.

		Total Volume	
		September 30, 2013	December 31, 2012
Commodity	Units	(In millions)	
Emissions	Short Ton	(1)	(1)
Coal	Short Ton	42	37
Natural Gas	MMBtu	(215)	(413)
Oil	Barrel	—	1
Power	MWh	(16)	(14)
Interest	Dollars	$1,520	$2,612

The decrease in the natural gas position was the result of additional purchases entered into during the year to hedge our retail portfolio as well as the settlement of positions during the period. These amounts were slightly offset by natural gas sales entered into during the year to hedge our conventional power generation. The decrease in the interest rate position was primarily the result of the settlement of interest rate swaps.

Fair Value of Derivative Instruments

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

	Fair Value			
	Derivative Assets		Derivative Liabilities	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
	(In millions)			
Derivatives designated as cash flow hedges:				
Interest rate contracts current	$—	$—	$27	$ 29
Interest rate contracts long-term	8	3	47	96
Commodity contracts current	—	—	2	3
Commodity contracts long-term	—	—	1	1
Total derivatives designated as cash flow hedges	8	3	77	129
Derivatives not designated as cash flow hedges:				
Interest rate contracts current	—	—	5	7
Interest rate contracts long-term	3	—	3	11
Commodity contracts current	1,389	2,644	1,030	1,942
Commodity contracts long-term	495	659	321	392
Total derivatives not designated as cash flow hedges	1,887	3,303	1,359	2,352

Total derivatives	$1,895	$3,306	$1,436	$2,481

21

The Company has elected to present derivative assets and liabilities on the balance sheet on a trade-by-trade basis and does not offset amounts at the counterparty master agreement level. In addition, collateral received or paid on the Company's derivative assets or liabilities are recorded on a separate line item on the balance sheet. The following table summarizes the offsetting of derivatives by counterparty master agreement level and collateral received or paid:

	Gross Amounts Not Offset in the Statement of Financial Position			
	Gross Amounts of Recognized Assets / Liabilities	Derivative Instruments	Cash Collateral (Held) / Posted	Net Amount
As of September 30, 2013	(In millions)			
Commodity contracts:				
Derivative assets	$1,884	$(1,151)	$(195)	$538
Derivative liabilities	(1,354)	1,151	65	(138)
Total commodity contracts	530	—	(130)	400
Interest rate contracts:				
Derivative assets	11	(6)	—	5
Derivative liabilities	(82)	6	—	(76)
Total interest rate contracts	(71)	—	—	(71)
Total derivative instruments	$459	$—	$(130)	$329

	Gross Amounts Not Offset in the Statement of Financial Position			
	Gross Amounts of Recognized Assets / Liabilities	Derivative Instruments	Cash Collateral (Held) / Posted	Net Amount
As of December 31, 2012	(In millions)			
Commodity contracts:				
Derivative assets	$3,303	$(2,024)	$(374)	$905
Derivative liabilities	(2,338)	2,024	28	(286)
Total commodity contracts	965	—	(346)	619
Interest rate contracts:				
Derivative assets	3	—	—	3
Derivative liabilities	(143)	—	—	(143)
Total interest rate contracts	(140)	—	—	(140)
Total derivative instruments	$825	$—	$(346)	$479

Accumulated Other Comprehensive Income

The following table summarizes the effects of ASC 815, Derivatives and Hedging, or ASC 815, on the Company's accumulated OCI balance attributable to cash flow hedge derivatives, net of tax:

	Three months ended September 30, 2013			Nine months ended September 30, 2013		
	Energy Commodities	Interest Rate	Total	Energy Commodities	Interest Rate	Total
	(In millions)					
Accumulated OCI beginning balance	$24	$(31)	$(7)	$41	$(72)	$(31)
Reclassified from accumulated OCI to income:						
Due to realization of previously deferred amounts	(15)	2	(13)	(38)	6	(32)
Mark-to-market of cash flow hedge accounting contracts	1	(4)	(3)	7	33	40
Accumulated OCI ending balance, net of $13 tax	$10	$(33)	$(23)	$10	$(33)	$(23)
	$11	$(9)	$2	$11	$(9)	$2

Gains/(losses) expected to be realized from OCI during the next 12 months, net of $1 tax						
Gains recognized in income from the ineffective portion of cash flow hedges	$1	$—	$1	$—	$—	$—

	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	Energy Commodities	Interest Rate	Total	Energy Commodities	Interest Rate	Total
	(In millions)					
Accumulated OCI beginning balance	$111	$(68)	$43	$188	$(56)	$132
Reclassified from accumulated OCI to income:						
Due to realization of previously deferred amounts	(30)	3	(27)	(106)	11	(95)
Mark-to-market of cash flow hedge accounting contracts	(1)	(15)	(16)	(2)	(35)	(37)
Accumulated OCI ending balance, net of $12 tax	$80	$(80)	$—	$80	$(80)	$—
Gains/(losses) expected to be realized from OCI during the next 12 months, net of $38 tax	$77	$(11)	$66	$77	$(11)	$66
Losses recognized in income from the ineffective portion of cash flow hedges	$—	$—	$—	$(51)	$—	$(51)

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