NRG ENERGY, INC.
Form 10-Q
October 30, 2008

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

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended: September 30, 2008

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 þ 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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 þ No o

As of October 23, 2008, there were 233,047,222 shares of common stock outstanding, par value $0.01 per share.

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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 , 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 I, Item 1A, of the Company s Annual Report on Form 10-K, for the year ended December 31, 2007, including 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, and generate earnings and cash flows from its asset-based businesses 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 and increased regulation of carbon dioxide and other greenhouse gas emissions;

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 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 *Repowering*NRG strategy of developing and building new power generation facilities, including new nuclear units and wind projects;

NRG s ability to implement its econrg strategy of finding ways to meet the challenges of climate change, clean air and protecting our natural resources while taking advantage of business opportunities; and

NRG s ability to achieve its strategy of regularly returning capital to shareholders.

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:

Acquisition	February 2, 2006 acquisition of Texas Genco LLC, now referred to as the Company s Texas region
ABWR	Advanced Boiling Water Reactor
ANPR	Advanced Notice of Proposed Rulemaking
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
BP	BP Alternative Energy North America Inc.
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CDWR	California Department of Water Resources
CL&P	Connecticut Light & Power
CO_2	Carbon dioxide
COLA	Combined Operating License Application
CS	Credit Suisse Group
CSF I	NRG Common Stock Finance I LLC
CSF II	NRG Common Stock Finance II LLC
DNREC	Delaware Department of Natural Resources
DPUC	Connecticut Department of Public Utility Control
EFOR	Equivalent Forced Outage Rates considers the equivalent impact that forced de-ratings have in addition to full forced outages
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
ESPP	Employee Stock Purchase Plan
Exchange Act	The Securities Exchange Act of 1934, as amended
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
FIN 48	FIN 48, *Accounting for Uncertainty in Income Taxes*
FSP	FASB Staff Position
GHG	Greenhouse Gases
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
LFRM	Locational Forward Reserve Market
LIBOR	London Inter-Bank Offer Rate
LMP	Locational Marginal Prices
LTIP	Long-Term Incentive Plan
MACT	Maximum Achievable Control Technology
Merit Order	A term used for the ranking of power stations in terms of increasing order of fuel costs
MMBtu	Million British Thermal Units
MOU	Memorandum of Understanding

GLOSSARY OF TERMS (cont d)

MRTU	Market Redesign and Technology Upgrade
MW	Megawatts
MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
NAAQS	National Ambient Air Quality Standard
NEPOOL	New England Power Pool
Net Exposure	Counterparty credit exposure to NRG, net of collateral
NiMo	Niagara Mohawk Power Corporation
NINA	Nuclear Innovation North America LLC
NOx	Nitrogen oxide
NOL	Net Operating Loss
NOV	Notice of Violation
NPNS	Normal Purchase Normal Sale
NRC	Nuclear Regulatory Commission
NYISO	New York Independent System Operator
NYPA	New York Power Authority
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 LLC, 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
PPA	Power Purchase Agreement
PPM	Parts per Million
PSD	Prevention of Significant Deterioration
PUCT	The Public Utility Commission of Texas
Repowering	Replacing, rebuilding, or redeveloping 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
*Repowering*NRG	NRG s program designed to develop, finance, construct and operate new, highly efficient, environmentally responsible capacity over the next decade
Revolving Credit Facility	NRG s $1 billion senior secured credit facility which matures on February 2, 2011
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run
RPM	Reliability Pricing Model term for capacity market in PJM market
RTO	Regional Transmission Organization, also referred to as an Independent System Operator, or ISO
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SEC	United States Securities and Exchange Commission
Securities Act	The Securities Act of 1933, as amended

Senior Credit Facility	NRG s senior secured facility, which is comprised of a Term B loan facility and a $1.3 billion Letter of Credit Facility which mature on February 1, 2013, and a $1 billion Revolving Credit Facility, which matures on February 2, 2011
Senior Notes	The Company s $4.7 billion outstanding unsecured senior notes consisting of $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
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 109	SFAS No. 109, *Accounting for Income Taxes*
SFAS 133	SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*
SFAS 141R	SFAS No. 141 (revised 2007), *Business Combinations*
SFAS 157	SFAS No. 157, *Fair Value Measurements*

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GLOSSARY OF TERMS (cont d)

SFAS 160	SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements*
SFAS 161	SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*
Sherbino	Sherbino I Wind Farm LLC
SO_2	Sulfur dioxide
SOP	Statement of Position issued by the American Institute of Certified Public Accountants
STP	South Texas Project Nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
STPNOC	South Texas Project Nuclear Operating Company
Synthetic Letter of Credit Facility	NRG s $1.3 billion senior secured synthetic letter of credit facility which matures on February 1, 2013
Term B loan	A senior first priority secured term loan which matures on February 1, 2013, and is included as part of NRG s Senior Credit Facility
Texas Genco	Texas Genco LLC, now referred to as the Company s Texas region
Texas West	The West Zone of Texas ERCOT power market
Tosli	Tosli Acquisition B.V.
US	United States of America
USEPA	United States Environmental Protection Agency
US GAAP	Accounting principles generally accepted in the United States
VAR	Value at Risk
WCP	WCP (Generation) Holdings, LLC

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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)	**2008**	**2007**	**2008**	**2007**
Operating Revenues				
Total operating revenues	$ 2,690	$ 1,772	$ 5,308	$ 4,607
Operating Costs and Expenses				
Cost of operations	997	939	2,812	2,560
Depreciation and amortization	156	160	478	481
General and administrative	75	78	233	234
Development costs	13	49	29	108
Total operating costs and expenses	1,241	1,226	3,552	3,383
Gain on sale of assets				16
Operating Income	1,449	546	1,756	1,240
Other Income/(Expense)				
Equity in earnings of unconsolidated affiliates	58	19	35	40
Other (loss)/income, net	(7)	14	14	44
Refinancing expense				(35)
Interest expense	(186)	(169)	(481)	(520)
Total other expense	(135)	(136)	(432)	(471)
Income From Continuing Operations Before Income Taxes	1,314	410	1,324	769
Income tax expense	530	145	531	300
Income From Continuing Operations	784	265	793	469
		3	172	13

Income from discontinued operations, net of income tax expense								
Net Income		784		268		965		482
Dividends for preferred shares		13		13		41		41
Income Available for Common Stockholders	$	771	$	255	$	924	$	441
Weighted average number of common shares outstanding basic		235		239		236		241
Income from continuing operations per weighted average common share basic	$	3.28	$	1.05	$	3.19	$	1.78
Income from discontinued operations per weighted average common share basic				0.02		0.73		0.05
Net Income per Weighted Average Common Share Basic	$	3.28	$	1.07	$	3.92	$	1.83
Weighted average number of common shares outstanding diluted		277		285		278		287
Income from continuing operations per weighted average common share diluted	$	2.83	$	0.92	$	2.83	$	1.61
Income from discontinued operations per weighted average common share diluted				0.01		0.62		0.05
Net Income per Weighted Average Common Share Diluted	$	2.83	$	0.93	$	3.45	$	1.66

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except shares)	September 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,483	$ 1,132
Restricted cash	32	29
Accounts receivable, less allowance for doubtful accounts of $3 and $1, respectively	531	482
Inventory	456	451
Derivative instruments valuation	4,190	1,034
Deferred income taxes		124
Cash collateral paid in support of energy risk management activities	544	85
Prepayments and other current assets	203	174
Current assets discontinued operations		51
Total current assets	7,439	3,562
Property, plant and equipment, net of accumulated depreciation of $2,184 and $1,695, respectively	11,472	11,320
Other Assets		
Equity investments in affiliates	428	425
Notes receivable and capital lease, less current portion	450	491
Goodwill	1,786	1,786
Intangible assets, net of accumulated amortization of $425 and $372, respectively	822	873
Nuclear decommissioning trust fund	333	384
Derivative instruments valuation	816	150
Other non-current assets	134	176
Intangible assets held-for-sale	3	14
Non-current assets discontinued operations		93
Total other assets	4,772	4,392
Total Assets	$ 23,683	$ 19,274

LIABILITIES AND STOCKHOLDERS EQUITY				
Current Liabilities				
Current portion of long-term debt and capital leases	$	122	$	466
Accounts payable		367		384
Derivative instruments valuation		4,022		917
Deferred income taxes		16		
Cash collateral received in support of energy risk management activities		154		14
Accrued expenses and other current liabilities		629		459
Current liabilities discontinued operations				37
Total current liabilities		5,310		2,277
Other Liabilities				
Long-term debt and capital leases		8,059		7,895
Nuclear decommissioning reserve		320		307
Nuclear decommissioning trust liability		252		326
Deferred income taxes		1,083		843
Derivative instruments valuation		1,158		759
Out-of-market contracts		336		628
Other non-current liabilities		568		412
Non-current liabilities discontinued operations				76
Total non-current liabilities		11,776		11,246
Total Liabilities		17,086		13,523
Minority interest		7		
3.625% convertible perpetual preferred stock (at liquidation value, net of issuance costs)		247		247
Commitments and Contingencies				
Stockholders Equity				
Preferred stock (at liquidation value, net of issuance costs)		892		892
Common stock		3		3
Additional paid-in capital		4,135		4,092
Retained earnings		2,194		1,270
Less treasury stock, at cost 29,242,483 and 24,550,600 shares, respectively		(823)		(638)
Accumulated other comprehensive loss		(58)		(115)
Total Stockholders Equity		6,343		5,504
Total Liabilities and Stockholders Equity	$	23,683	$	19,274

See notes to condensed consolidated financial statements.

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

(In millions) Nine Months Ended September 30,	2008	2007
Cash Flows from Operating Activities		
Net income	$ 965	$ 482
Adjustments to reconcile net income to net cash provided by operating activities Distributions and equity in (earnings) of unconsolidated affiliates	(24)	(23)
Depreciation and amortization	478	483
Amortization of nuclear fuel	31	42
Amortization and write-off of financing costs and debt discount/premiums	22	59
Amortization of intangibles and out-of-market contracts	(226)	(112)
Changes in deferred income taxes and liability for unrecognized tax benefits	427	232
Changes in nuclear decommissioning trust liability	8	23
Changes in derivatives	(110)	41
Changes in collateral deposits supporting energy risk management activities	(320)	(107)
Loss/(gain) on disposals and sales of assets	13	(16)
Gain on sale of discontinued operations	(273)	
Gain on sale of emission allowances	(52)	(31)
Amortization of unearned equity compensation	21	19
Cash provided/(used) by changes in other working capital	81	(116)
Net Cash Provided by Operating Activities	1,041	976
Cash Flows from Investing Activities		
Capital expenditures	(649)	(309)
Increase in restricted cash, net	(3)	(18)
Decrease in notes receivable	20	26
Purchases of emission allowances	(6)	(152)
Proceeds from sale of emission allowances	75	170
Investments in nuclear decommissioning trust fund securities	(441)	(193)
Proceeds from sales of nuclear decommissioning trust fund securities	434	170
Proceeds from sale of discontinued operations, net of cash divested	241	
Proceeds from sale of assets	14	57
Decrease in trust fund balances		19
Equity investment in unconsolidated affiliate	(17)	
Other		(2)
Net Cash Used by Investing Activities	(332)	(232)
Cash Flows from Financing Activities		

Payment of dividends to preferred stockholders		(41)		(41)
Payment of financing element of acquired derivatives		(49)		
Payment for treasury stock		(185)		(268)
Proceeds from issuance of common stock, net of issuance costs		8		
Proceeds from sale of minority interest in subsidiary		50		
Proceeds from issuance of long-term debt		20		1,411
Payment of deferred debt issuance costs		(2)		(5)
Payments for short and long-term debt		(202)		(1,472)
Net Cash Used by Financing Activities		(401)		(375)
Change in cash from discontinued operations		43		(16)
Effect of exchange rate changes on cash and cash equivalents				7
Net Increase in Cash and Cash Equivalents		351		360
Cash and Cash Equivalents at Beginning of Period		1,132		777
Cash and Cash Equivalents at End of Period	$	1,483	$	1,137

See notes to condensed consolidated financial statements.

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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 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 select international markets.

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 accounting policies NRG follows are set forth in Note 2, *Summary of Significant Accounting Policies*, to the Company s financial statements in its Annual Report on Form 10-K for the year ended December 31, 2007. 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 September 30, 2008, the results of operations for the three and nine months ended September 30, 2008 and 2007, and cash flows for the nine months ended September 30, 2008 and 2007. 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.

Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2008 are predominantly held in money market funds invested in treasury securities or treasury repurchase agreements.

Investment Accounted for by the Equity Method

In February 2008, a wholly-owned subsidiary of NRG entered into a 50/50 joint venture with a subsidiary of BP Alternative Energy North America Inc., or BP, to build and own the Sherbino I Wind Farm LLC, or Sherbino. This is a 150 MW wind project consisting of 50 Vestas 3 MW wind turbine generators, located in the West Zone of Texas ERCOT power market, or Texas West. The project will be funded through a combination of equity contributions from the owners and non-recourse project-level debt. NRG delivered a $59 million promissory note to Sherbino to support its initial capital contribution, payable no later than December 1, 2008, made an additional $17 million cash contribution in April 2008, and expects to contribute another $11 million by year end, bringing its total expected equity contribution to approximately $87 million. NRG has posted a letter of credit in this amount. NRG s maximum exposure to loss is limited to its expected equity investments. Sherbino commenced commercial operations in October 2008.

Sherbino has entered into a long-term natural gas swap to mitigate a portion of power price risk for its expected power generation. As the changes in natural gas prices and in Texas West power prices do not meet the required correlation for cash flow hedge accounting, Sherbino will account for the natural gas swap hedge under mark-to-market accounting.

NRG accounts for its investment in Sherbino under the equity method of accounting. NRG s share of mark-to-market results of the natural gas swap, a loss of $9 million for the nine months ended September 30, 2008, is included in NRG s equity in earnings of Sherbino. NRG s investment at September 30, 2008, net of its promissory note commitment, is $7 million, which is included in *Equity Investments in Affiliates* on the condensed consolidated balance sheet.

Other Cash Flow Information

NRG s non-cash investing activities for the nine months ended September 30, 2008 included capital expenditures of $60 million for which the associated liability is reflected within accrued expenses.

Recent Accounting Developments

The Company partially adopted SFAS No. 157, *Fair Value Measurements*, or SFAS 157, on January 1, 2008, delaying application for non-financial assets and non-financial liabilities as permitted. This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the Financial Accounting Standards Board, or FASB, issued FASB Staff Position, or FSP, No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which amends SFAS 157 to exclude SFAS Statement No. 13, *Accounting for Leases*, or SFAS 13, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under SFAS 13. In February 2008, the FASB also issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which permitted delayed application of this statement for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The partial adoption of SFAS 157 did not have a material impact on the Company s consolidated financial position, statement of operations, and cash flows. The Company is currently evaluating the impact of the deferred portion of SFAS 157 on the Company s consolidated financial position, statement of operations, and cash flows.

The Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*, or SFAS 159, on January 1, 2008. This statement provides entities with an option to measure and report selected financial assets and liabilities at fair value. The Company does not intend to apply this standard to any of its eligible assets or liabilities; therefore, there was no impact on NRG s consolidated financial position, results of operations, or cash flows.

The Company adopted FSP FIN 39-1, *Amendment of FASB Interpretation No. 39*, or FSP FIN 39-1, which amends FIN 39, *Offsetting of Amounts Related to Certain Contracts*, on January 1, 2008. FSP FIN 39-1 impacts entities that enter into master netting arrangements as part of their derivative transactions. Under the guidance in this FSP, entities may choose to offset derivative positions in the financial statements against the fair value of amounts recognized as cash collateral paid or received under those arrangements. The Company chose not to offset positions as defined in this FSP; therefore there was no impact on NRG s consolidated financial position, results of operations, or cash flows.

NRG has non-qualified stock options for which it has insufficient historical exercise data and therefore estimates the expected term using the simplified method, as allowed under Staff Accounting Bulletin, or SAB, No. 107, *Share Based Payment*, or SAB 107. In December 2007, the SEC issued SAB No. 110, *Certain Assumptions Used in Valuation Methods*, which eliminates the December 31, 2007 expiration of SAB 107 s permission to use this simplified method. NRG will therefore continue to use this simplified method, for as long as the Company deems it to be the most appropriate method.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, or SFAS 141R. This statement applies prospectively to all business combinations for which the acquisition date is on or after the beginning of an entity s first annual reporting period beginning on or after December 15, 2008. The statement requires an acquirer to recognize and measure in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at fair value at the acquisition date. It also recognizes and measures the goodwill acquired or a gain from a bargain purchase in the business combination and determines what information to disclose to enable users of an entity s financial statements to evaluate the nature and financial effects of the business combination. As discussed further in Note 12, *Income Taxes*, SFAS 141R will change the application of fresh start accounting to certain of the Company s unrecognized tax benefits. NRG is currently evaluating the impact of this statement upon its adoption on the Company s results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, Consolidated Financial Statements*, or SFAS 160. This Statement amends ARB No. 51 to establish accounting and reporting standards for the minority interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB No. 51 s consolidation procedures for consistency with the requirements of SFAS 141R. This Statement shall be effective and applied prospectively for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which shall be applied retrospectively. NRG is currently evaluating the impact of this statement upon its adoption on the Company s results of operations, financial position and cash flows.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities*, or SFAS 161. SFAS 161 requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended or* SFAS 133, and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The enhanced disclosures regarding derivative and hedging instruments required by SFAS 161 are relevant to NRG, but will not have an impact on the Company s results of operations, financial position, or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets.* FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, with early adoption prohibited. NRG is currently evaluating the impact of this statement upon its adoption on the Company s results of operations, financial position and cash flows.

In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, or FSP APB 14-1. FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) do not fall within the scope of paragraph 12 of Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, and specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 does not apply to embedded conversion options that must be separately accounted for as derivatives under SFAS 133. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years and is to be applied retrospectively. NRG is currently evaluating the impact of this statement upon its adoption on the Company s results of operations, financial position and cash flows.

In June 2008, the Emerging Issues Task Force, or EITF, issued EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock*, or EITF 07-5. EITF 07-5 clarifies that contingent and other adjustment features in equity-linked financial instruments are consistent with equity indexation if they are based on variables that would be inputs to a plain vanilla option or forward pricing model and they do not increase the contract s exposure to those variables. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. NRG is currently evaluating the impact of this statement upon its adoption on the Company s results of operations, financial position and cash flows.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*, or FSP FAS 133-1 and FIN 45-4. This FSP amends FAS 133, and FIN 45 *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* to require additional disclosures about credit derivatives, credit derivatives embedded in a hybrid instrument, and the current status of the payment/performance risk of a guarantee. FSP FAS 133-1 and FIN 45-4 is effective for the financial statements of reporting periods (annual or interim) ending after November 15, 2008. NRG currently has no credit derivative contracts so there will be no impact on NRG related to credit derivatives. The clarification to SFAS 161 is not applicable to NRG as it only affects non-calendar year filers. The enhanced disclosures regarding the current status of the payment/performance risk of guarantees are relevant to NRG, but will not have an impact on the Company s results of operations, financial position, or cash flows.

In September 2008, the EITF issued EITF 08-5, *Issuer s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement*, or EITF 08-5. EITF 08-5 requires issuers of liability instruments with third-party credit enhancements to exclude the effect of the credit enhancement when measuring the liability s fair value. The effect of initially applying the requirements is included in the change in the instrument s fair value in the period of adoption. Entities are required to disclose the valuation technique used to measure the liabilities and to discuss any changes in the valuation techniques used to measure those liabilities in earlier periods. Entities will also need to disclose the existence of a third-party credit enhancement on the entity s issued debt. EITF 08-5 is effective on a prospective basis in the first reporting period beginning on or after December 15, 2008, with earlier application permitted. The fair value measurement requirements and enhanced disclosures regarding existence of third-party credit enhancements on the entity s issued debt and valuation techniques will not have an impact on the Company s results of operations, financial position, or cash flows.

On October 10, 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, or FSP 157-3. This FSP clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate SFAS No. 154, *Accounting Changes and Error Corrections*, or SFAS 154. The disclosure provisions of SFAS 154 for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. Although effective for the period ended September 30, 2008, FSP 157-3 did not have an impact on the Company s results of operations, financial position, or cash flows.

Note 2 Comprehensive Income/(Loss)

The following table summarizes the components of the Company s comprehensive income, net of tax.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2008**	**2007**	**2008**	**2007**
Net income	$ 784	$ 268	$ 965	$ 482
Changes in derivative activity	1,112	46	112	(278)
Foreign currency translation adjustment	(104)	39	(54)	65
Unrealized gain/(loss) on available-for-sale securities	(4)		(1)	1
Other comprehensive income/(loss), net of tax	$ 1,004	$ 85	$ 57	$ (212)
Comprehensive income	$ 1,788	$ 353	$ 1,022	$ 270

The following table summarizes the changes in the Company s accumulated other comprehensive loss, net of tax.

(In millions) **As of September 30,**	**2008**
Accumulated other comprehensive loss as of December 31, 2007	$ (115)
Changes in derivative activity	112
Foreign currency translation adjustments	(54)
Unrealized loss on available-for-sale securities	(1)

Accumulated other comprehensive loss as of September 30, 2008	$	(58)

Note 3 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 accounted for as discontinued operations.

The assets and liabilities reported in the balance sheet as of December 31, 2007 as discontinued operations represent those of Itiquira Energetica S.A., or ITISA. On April 28, 2008, NRG completed the sale of its 100% interest in Tosli Acquisition B.V., or Tosli, which held all NRG s interest in ITISA, to Brookfield Renewable Power Inc. (previously Brookfield Power Inc.), a wholly-owned subsidiary of Brookfield Asset Management Inc. In addition, the purchase price adjustment contingency under the sale agreement was resolved on August 7, 2008. In connection with the sale, NRG received $300 million of cash proceeds from Brookfield, and removed $163 million of assets, including $59 million of cash, $122 million of liabilities, including $63 million of debt, and $15 million in foreign currency translation adjustment from its 2008 condensed consolidated balance sheet.

Summarized operating results for the Company s discontinued operations, consisting of ITISA s activities, were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2008**	**2007**	**2008**	**2007**
Operating revenues	$	$ 13	$ 20	$ 36
Operating costs and other expenses		7	9	18
Pre-tax income from operations of discontinued components		6	11	18
Income tax expense		3	3	5
Income from operations of discontinued components		3	8	13
Disposal of discontinued components pre-tax gain	3		273	
Income tax expense	3		109	
Gain on disposal of discontinued components, net of income tax			164	
Income from discontinued operations, net of income tax expense	$	$ 3	$ 172	$ 13

Note 4 Fair Value of Financial Instruments

Fair Value of Long-Term Debt

The Company s long-term debt is recorded at carrying value on the Company s consolidated balance sheet. The carrying amounts and fair value of the Company s long-term debt as of September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008		December 31, 2007	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt, including current portion	$ 8,028	$ 7,218	$ 8,180	$ 8,164

The fair value of long-term debt is based on quoted market prices for these instruments that are publicly traded, or estimated based on the income approach valuation technique for non-publicly traded debt using current interest rates for similar instruments with equivalent credit quality.

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Adoption of SFAS No. 157

The Company partially adopted SFAS 157 on January 1, 2008, delaying application for non-financial assets and non-financial liabilities as permitted. This statement establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. NRG s financial assets and liabilities utilizing Level 1 inputs include active exchange-traded securities, energy derivatives, and trust fund investments.

Level 2 inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. NRG s financial assets and liabilities utilizing Level 2 inputs include fixed income securities, exchange-based derivatives, and over-the-counter derivatives such as swaps, options and forwards.

Level 3 unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date. NRG s financial assets and liabilities utilizing Level 3 inputs include infrequently-traded, non-exchange-based derivatives and commingled investment funds, and are measured using present value pricing models.

In accordance with SFAS 157, the Company determines the level in the fair value hierarchy within which each fair value measurement in its entirety falls, based on the lowest level input that is significant to the fair value measurement in its entirety.

Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on the Company s consolidated balance sheet on a recurring basis and their level within the fair value hierarchy as of September 30, 2008:

(In millions)	**Fair Value**			
As of September 30, 2008	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities	$	$	$ 10	$ 10
Marketable equity securities	5			5
Trust fund investments	180	135	20	335
Derivative assets	2,152	2,832	22	5,006
Total assets	$ 2,337	$ 2,967	$ 52	$ 5,356
Derivative liabilities	$ 2,153	$ 3,023	$ 4	$ 5,180

The following table reconciles, for the period ended September 30, 2008, 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)			
(In millions)				
Nine Months Ended September 30, 2008	**Debt Securities**	**Trust Fund Investments**	**Derivatives**	**Total**
Beginning balance as of January 1, 2008	$ 32	$ 37	$ 27	$ 96
Total gains and losses (realized/unrealized)				
Included in earnings	(22)		(19)	(41)
Included in nuclear decommissioning obligations		(9)		(9)
Included in other comprehensive income			28	28
Purchases/(sales), net		(9)	(17)	(26)
Transfer into Level 3		1	(1)	
Ending balance as of September 30, 2008	$ 10	$ 20	$ 18	$ 48
The amount of the total gains or losses for the period included in earnings attributable to the change in unrealized gains and losses relating to assets still held as of September 30, 2008	$ 22	$	$ 19	$ 41

Realized and unrealized gains and losses included in earnings that are related to the debt securities are recorded in other income, while those related to energy derivatives are recorded in operating revenues.

Non-derivative fair value measurements

NRG s debt securities are classified as Level 3 and consist of non-traded debt instruments that are valued based on an auction process.

The trust fund investments are held primarily to satisfy NRG s nuclear decommissioning obligations. These trust fund investments hold debt and equity securities directly and equity securities indirectly through commingled funds. The fair values of equity securities held directly by the trust funds are based on quoted prices in active markets and are categorized in Level 1. In addition, US Treasury securities are categorized as Level 1 because they trade in a highly liquid and transparent market. The fair values of fixed income securities, excluding US Treasury securities, are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are categorized in Level 2. Commingled funds, which are analogous to mutual funds, are maintained by investment companies and hold certain investments in accordance with a stated set of fund objectives. The fair value of commingled funds are based on net asset values per fund share (the unit of account), derived from the quoted prices in active markets of the underlying equity securities. However, because the shares in the commingled funds are not publicly quoted, not traded in an active market and are subject to certain restrictions regarding their purchase and sale, the commingled funds are categorized in Level 3. See Note 5 *Nuclear Decommissioning Trust Fund.*

Derivative fair value measurements

A small portion of NRG s contracts are exchange-traded contracts with readily available quoted market prices. The 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, on-line exchanges. For the majority of our markets we receive quotes from multiple sources. To the extent that we receive multiple quotes our 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 we only receive 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. The remainder of the assets and liabilities represent contracts for which external sources or observable market quotes are not available. These contracts are valued based on various valuation 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. Contracts valued with prices provided by models and other valuation techniques make up 11% of the total fair value of all derivative contracts. The fair value of each contract is discounted using a risk free interest rate. In addition, we apply a credit reserve to reflect credit risk which is calculated based on published default probabilities. To the extent that our net exposure under a specific master agreement is an asset we are using the counterparty s risk of default. If the exposure under a specific master agreement is a liability we are using NRG s probability of default. 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, 2008 the credit reserve resulted in a $6 million decrease in fair value which is composed of a $5 million gain in OCI and an $11 million loss in derivative revenue. The fair values in each category reflect the level of forward prices and volatility factors as of September 30, 2008 and may change as a result of changes in these factors. Management uses its best estimates to determine the fair value of commodity and derivative contracts NRG holds and sells. These estimates consider various factors including closing exchange and over-the-counter price quotations, time value, volatility factors and credit exposure. It is possible, however, that future market prices could vary from those used in recording assets and liabilities from energy marketing and trading activities and such variations could be material.

Under the guidance of FSP FIN 39-1, entities may choose to offset derivative positions in the financial statements against the fair value of the amounts recognized as cash collateral paid or received under those arrangements. The Company has credit arrangements within various agreements to call on or pay additional collateral support. The Company has chosen not to offset positions as defined in this FSP. As of September 30, 2008, the Company recorded \$544 million of cash collateral paid and \$154 million of cash collateral received on its balance sheet.

Note 5 Nuclear Decommissioning Trust Fund

NRG s nuclear decommissioning trust fund assets which are for the decommissioning of South Texas Project, or STP, are primarily comprised of securities recorded at fair value based on actively quoted market prices. NRG accounts for these trust fund assets per SFAS 71, *Accounting for the Effects of Certain Types of Regulation*, because the Company s nuclear decommissioning activities are regulated by the Public Utility Commission of Texas, or PUCT. Although the owners of STP are responsible for the management of decommissioning STP, the cost of decommissioning is the responsibility of the Texas ratepayers. As such, NRG does not bear the cost for these decommissioning responsibilities, except to the extent that NRG has a prudence obligation with respect to the management of the trust funds and the future decommissioning of STP. Third party appraisals are periodically conducted to estimate the future decommissioning liability related to STP. These appraisals are then used to determine the adequacy of the existing decommissioning trust investments to cover that estimated future liability. Should there be a shortfall in the value of the assets in the trust relative to the estimated liability, NRG has the ability to file a rate case with the PUCT to increase decommissioning reimbursements over time from retail customers.

The following table summarizes the fair values of the securities held in the trust funds as of September 30, 2008 and December 31, 2007:

(In millions)	**September 30, 2008**	**December 31, 2007**
Cash and cash equivalents	$ 1	$ 4
US government and federal agency obligations	26	21
Federal agency mortgage-backed securities	65	59
Commercial mortgage-backed securities	23	22
Corporate debt securities	39	44
Marketable equity securities	179	234
Total	$ 333	$ 384

Note 6 Accounting for Derivative Instruments and Hedging Activities

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 Other Comprehensive Income, or OCI, until the hedged transactions occur and are recognized in earnings. The ineffective portion of a cash flow hedge is immediately recognized in earnings.

Accumulated Other Comprehensive Income

The following tables summarize the effects of SFAS 133 on NRG s OCI balance attributable to hedged derivatives, net of tax:

(In millions) **Three months ended September 30, 2008**	**Energy Commodities**	**Interest Rate**	**Total**
Accumulated OCI balance at June 30, 2008	$ (1,235)	$ (30)	$ (1,265)
Realized from OCI during the period:			
Due to realization of previously deferred amounts	26		26
Mark-to-market of hedge contracts	1,088	(2)	1,086
Accumulated OCI balance at September 30, 2008	$ (121)	$ (32)	$ (153)
Gains expected to be realized from OCI during the next 12 months, net of $53 tax	$ 81	$	$ 81

(In millions) Three months ended September 30, 2007	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at June 30, 2007	$ (145)	$ 30	$ (115)
Realized from OCI during the period:			
Due to realization of previously deferred amounts	(10)	(1)	(11)
Mark-to-market of hedge contracts	86	(29)	57
Accumulated OCI balance at September 30, 2007	$ (69)	$	$ (69)

(In millions) Nine months ended September 30, 2008	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at December 31, 2007	$ (234)	$ (31)	$ (265)
Realized from OCI during the period:			
Due to realization of previously deferred amounts	32		32
Mark-to-market of hedge contracts	81	(1)	80
Accumulated OCI balance at September 30, 2008	$ (121)	$ (32)	$ (153)

(In millions) Nine months ended September 30, 2007	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	(37)	(1)	(38)
Mark-to-market of hedge contracts	(225)	(15)	(240)
Accumulated OCI balance at September 30, 2007	$ (69)	$	$ (69)

As of September 30, 2008 and 2007, the net balances in OCI relating to SFAS 133 were unrecognized losses of approximately $153 million and $69 million, which were net of income taxes of $102 million and $46 million, respectively.

As of July 31, 2008, our regression analysis for natural gas prices to ERCOT power prices did not meet the required threshold for cash flow hedge accounting for calendar years 2012 and 2013. As a result, we de-designated our 2012 and 2013 ERCOT cash flow hedges as of July 31, 2008. We will continue to monitor the correlations in this market, and if the regression analysis meets the required thresholds in the future, we may elect to re-designate these transactions as cash flow hedges.

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.

The following table summarizes the pre-tax effects of economic hedges that did not qualify for cash flow hedge accounting, ineffectiveness on cash flow hedges, and trading activity on NRG s statement of operations. These amounts are included within operating revenues.

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2008**	**2007**	**2008**	**2007**
Unrealized mark-to-market results				
Reversal of previously recognized unrealized gains on settled positions related to economic hedges	$ (7)	$ (17)	$ (32)	$ (109)
Reversal of previously recognized unrealized gains on settled positions related to trading activity	(9)	(3)	(20)	(23)
Net unrealized gains on open positions related to economic hedges	439	1	180	22
(Loss)/gain on ineffectiveness associated with open positions treated as cash flow hedges	352	9	(27)	32
Net unrealized gains on open positions related to trading activity	26	16	57	37
Total unrealized mark-to-market results	$ 801	$ 6	$ 158	$ (41)

Discontinued Hedge Accounting During the third quarter of 2008, a relatively mild summer season in the Northeast resulted in falling power prices and expected lower power generation for the remainder of 2008 and calendar year 2009. As such, NRG discontinued cash flow hedge accounting for certain contracts related to commodity price risk previously accounted for as cash flow hedges for 2008 and 2009. These contracts were originally entered into as hedges of forecasted sales by baseload plants. As a result, $31 million of gain previously deferred in OCI was recognized in earnings for the three and nine months ended September 30, 2008.

Note 7 Long-Term Debt

Debt Related to NRG Common Stock Finance I, LLC

In March 2008, the Company executed an arrangement with Credit Suisse, or CS, to extend the notes and preferred interest maturities of NRG Common Stock Finance I, LLC, or CSF I, from October 2008 to June 2010. In addition, the settlement date of an embedded derivative, or CSFI CAGR, which is based on NRG s share price appreciation beyond a 20% compound annual growth rate since the original date of purchase by CSF I, was extended 30 days to early December 2008. As part of this extension arrangement, the Company contributed 795,503 treasury shares to CSF I as additional collateral to maintain a blended interest rate in the CSF I facility of approximately 7.5%. Accordingly, the amount due at maturity in June 2010 for the CSF I notes and preferred interests will be $248 million.

In August 2008, the Company amended the CSF I notes and preferred interests to early settle the CSFI CAGR. Accordingly, NRG made a cash payment of $45 million to CS for the benefit of CSFI, which was recorded to interest expense in the Company s Consolidated Statement of Operations.

Senior Credit Facility

Beginning in 2008, NRG must annually offer a portion of its excess cash flow (as defined in the Senior Credit Facility) for the prior year to its first lien lenders under the Company s Term B loan. The percentage of the excess cash flow offered to these lenders is dependent upon the Company s consolidated leverage ratio (as defined in the Senior Credit Facility) at the end of the preceding year. Of the amount offered, the first lien lenders must accept 50%, while the remaining 50% may either be accepted or rejected at the lenders option. The mandatory annual offer required for 2008 was $446 million, against which the Company made a prepayment of $300 million in December 2007. Of the remaining $146 million, the lenders accepted a repayment of $143 million in March 2008. The amount retained by the Company can be used for investments, capital expenditures and other items as permitted by the Senior Credit Facility.

Note 8 Changes in Capital Structure

The following table reflects the changes in NRG s common stock issued and outstanding during the nine months ended September 30, 2008:

	Authorized	**Issued**	**Treasury**	**Outstanding**
Balance as of December 31, 2007	500,000,000	261,285,529	(24,550,600)	236,734,929
2008 Capital Allocation Program			(4,691,883)	(4,691,883)
Shares issued from LTIP		984,176		984,176
Balance as of September 30, 2008	500,000,000	262,269,705	(29,242,483)	233,027,222

Treasury Stock

In December 2007, the Company initiated its 2008 Capital Allocation Program, with the repurchase of 2,037,700 shares of NRG common stock during that month for approximately $85 million. In February 2008, the

Company s Board of Directors authorized an additional $200 million in common share repurchases that would raise the total 2008 Capital Allocation Program to approximately $300 million. In the first quarter 2008, the Company repurchased 1,281,600 shares of NRG common stock for approximately $55 million. In the third quarter 2008, the Company repurchased an additional 3,410,283 of NRG common stock in the open market for approximately $130 million. As of September 30, 2008, NRG had repurchased a total of 6,729,583 shares of NRG common stock at a cost of approximately $270 million as part of its 2008 Capital Allocation Program.

Note 9 Equity Compensation

Non-Qualified Stock Options, or NQSO s

The following table summarizes the Company s NQSO activity as of September 30, 2008 and the changes during the nine months then ended:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In millions)
Outstanding as of December 31, 2007	3,579,775	$ 19.98	
Granted	1,174,200	40.48	
Forfeited	(148,536)	32.79	
Exercised	(507,986)	16.29	
Outstanding at September 30, 2008	4,097,453	25.84	$
Exercisable at September 30, 2008	2,056,803	$ 17.54	15

The weighted average grant date fair value of NQSO s granted for the nine months ending September 30, 2008 was $10.61.

Restricted Stock Units, or RSU s

The following table summarizes the Company s non-vested RSU awards as of September 30, 2008 and changes during the nine months then ended:

	Units	Weighted Average Grant-Date Fair Value Per Unit
Non-vested as of December 31, 2007	1,588,316	$ 26.99
Granted	163,200	40.22
Vested	(610,760)	19.38
Forfeited	(71,320)	31.13
Non-vested as of September 30, 2008	1,069,436	$ 33.08

Performance Units, or PU s

The following table summarizes the Company s non-vested PU awards as of September 30, 2008 and changes during the nine months then ended:

	Units	Weighted Average Grant- Date Fair Value Per Unit
Non-vested as of December 31, 2007	536,764	$ 20.18
Granted	227,300	27.75
Vested	(50,000)	15.74
Forfeited	(59,700)	21.49
Non-vested as of September 30, 2008	654,364	$ 23.05

In the third quarter 2008, 100,000 shares of common stock were issued for performance units that vested in accordance with the plan payout provisions.

Employee Stock Purchase Plan

In May 2008, NRG shareholders approved the adoption of the NRG Energy, Inc. Employee Stock Purchase Plan, or ESPP, pursuant to which eligible employees may elect to withhold up to 10% of their eligible compensation to purchase shares of NRG common stock at 85% of its fair market value on the exercise date. An exercise date occurs each June 30 and December 31. The initial six month employee withholding period began July 1, 2008 and ends December 31, 2008. There are 500,000 shares of treasury stock reserved for issuance under the ESPP.

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Note 10 Earnings Per Share

Basic earnings per common share is computed by dividing net income adjusted for 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 September 30, 2008	2007	Nine months ended September 30, 2008	2007
Basic earnings per share				
Numerator:				
Income from continuing operations	$ 784	$ 265	$ 793	$ 469
Preferred stock dividends	(13)	(13)	(41)	(41)
Net income available to common stockholders from continuing operations	771	252	752	428