NRG ENERGY, INC.
Form 10-Q
November 02, 2012

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

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| x | Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 |
| | For the Quarterly Period Ended: September 30, 2012 |
| 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, 2012, there were 228,297,805 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 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, 2011, and Item 1A — Risk Factors, in Part II, Item 1A of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 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 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 ISOs 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;
- 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 2011Senior 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 strategy, 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 retail market share;
- NRG's ability to successfully evaluate investments in new business and growth initiatives;
- NRG's ability to successfully integrate and manage any acquired businesses;

- NRG's ability to develop and maintain successful partnering relationships; and
- NRG's successful and timely completion of the proposed merger with GenOn Energy, Inc., which could be materially and adversely affected by, among other things, resolving any litigation brought in connection with the proposed merger, the timing and terms and conditions of required stockholder, governmental and regulatory approvals, and the ability to maintain relationships with employees, customers or suppliers as well as the ability to integrate the businesses and realize cost savings.

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

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GLOSSARY OF TERMS

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

| | |
|---|---|
| 2011 Form 10-K | NRG's Annual Report on Form 10-K for the year ended December 31, 2011 |
| 2011 Revolving Credit Facility | The Company's $2.3 billion revolving credit facility due 2016, a component of the 2011 Senior Credit Facility |
| 2011 Senior Credit Facility | As of July 1, 2011, NRG's senior secured facility, comprised of a $1.6 billion term loan facility and a $2.3 billion revolving credit facility |
| 316(b) Rule | A section of the Clean Water Act regulating cooling water intake structures |
| Baseload capacity | Coal and nuclear electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year |
| CAA | Clean Air Act |
| CAIR | Clean Air Interstate Rule |
| CAISO | California Independent System Operator |
| Capital Allocation Plan | Share repurchase and shareholder dividend program |
| Capital Allocation Program | NRG's plan of allocating capital between debt reduction, reinvestment in the business, share repurchases and shareholder dividends through the Capital Allocation Plan |
| CDWR | California Department of Water Resources |
| C&I | Commercial, industrial and governmental/institutional |
| CFTC | U.S. Commodity Futures Trading Commission |
| $CO_2$ | Carbon dioxide |
| CPUC | California Public Utilities Commission |
| CSAPR | Cross-State Air Pollution Rule |
| Distributed Solar | Solar power projects, typically less than 20 MW in size (on an alternating current, or AC, basis), 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 |
| Energy Plus | Energy Plus Holdings LLC |
| ERCOT | Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas |

| | |
|---|---|
| Exchange Act | The Securities Exchange Act of 1934, as amended |
| FERC | Federal Energy Regulatory Commission |
| GenOn | GenOn Energy, Inc. |
| 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 |
| ISO | Independent System Operator, also referred to as Regional Transmission Organizations, or RTO |
| ITC | Investment Tax Credit |
| LIBOR | London Inter-Bank Offered Rate |
| LTIP | Long-Term Incentive Plan |
| Mass | Residential and small business |
| 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 |
| Merit Order | A term used for the ranking of power stations in order of ascending marginal cost |
| MMBtu | Million British Thermal Units |
| MW | Megawatts |
| MWh | Saleable megawatt hours net of internal/parasitic load megawatt-hours |
| NAAQS | National Ambient Air Quality Standards |
| NINA | Nuclear Innovation North America LLC |
| $NO_x$ | Nitrogen oxide |
| NPNS | Normal Purchase Normal Sale |
| NRC | U.S. Nuclear Regulatory Commission |
| NYISO | New York Independent System Operator |
| NYPSC | New York Public Service Commission |
| OCI | Other comprehensive income |
| 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 |

| | |
|---|---|
| PM 2.5 | Particulate matter particles with a diameter of 2.5 micrometers or less |
| PPA | Power Purchase Agreement |
| PUCT | Public Utility Commission of Texas |
| Repowering | Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency |
| SEC | United States Securities and Exchange Commission |
| Securities Act | The Securities Act of 1933, as amended |

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|---|---|
| Senior Notes | The Company's $6.2 billion outstanding unsecured senior notes, consisting of $270 million of 7.375% senior notes due 2017, $1.2 billion of 7.625% senior notes due 2018, $700 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 | Prior to July 1, 2011, a senior first priority secured term loan, of which approximately $608 million would have matured on February 1, 2013, and $990 million would have matured on August 31, 2015, and was a component of NRG's Senior Credit Facility. On July 1, 2011, NRG replaced its Senior Credit Facility, including the Term Loan Facility, with the 2011 Senior Credit Facility. |
| U.S. | United States of America |
| U.S. DOE | U.S. Department of Energy |
| U.S. DOJ | U.S. Department of Justice |
| U.S. EPA | U.S. Environmental Protection Agency |
| 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, or AC, 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) | 2012 | 2011 | 2012 | 2011 |
| Operating Revenues | | | | |
| Total operating revenues | $2,331 | $2,674 | $6,359 | $6,947 |
| Operating Costs and Expenses | | | | |
| Cost of operations | 1,726 | 2,053 | 4,618 | 4,985 |
| Depreciation and amortization | 239 | 238 | 703 | 665 |
| Impairment charge on emission allowances | — | 160 | — | 160 |
| Selling, general and administrative | 253 | 169 | 681 | 479 |
| Acquisition-related transaction and integration costs | 18 | — | 18 | — |
| Development costs | 9 | 11 | 26 | 32 |
| Total operating costs and expenses | 2,245 | 2,631 | 6,046 | 6,321 |
| Operating Income | 86 | 43 | 313 | 626 |
| Other Income/(Expense) | | | | |
| Equity in earnings of unconsolidated affiliates | 4 | 16 | 26 | 26 |
| Impairment charge on investment | (1) | (3) | (2) | (495) |
| Other income, net | 10 | 5 | 14 | 13 |
| Loss on debt extinguishment | (41) | (32) | (41) | (175) |
| Interest expense | (163) | (164) | (495) | (504) |
| Total other expense | (191) | (178) | (498) | (1,135) |
| Loss Before Income Taxes | (105) | (135) | (185) | (509) |
| Income tax benefit | (113) | (80) | (246) | (815) |
| Net Income/(Loss) | 8 | (55) | 61 | 306 |
| Less: Net income attributable to noncontrolling interest | 9 | — | 18 | — |
| Net (Loss)/Income Attributable to NRG Energy, Inc. | (1) | (55) | 43 | 306 |
| Dividends for preferred shares | 2 | 2 | 7 | 7 |
| (Loss)/Income Available for Common Stockholders | $(3) | $(57) | $36 | $299 |
| (Loss)/Earnings Per Share Attributable to NRG Energy, Inc. Common Stockholders | | | | |
| Weighted average number of common shares outstanding — basic | 228 | 240 | 228 | 243 |
| Net (loss)/income per weighted average common share — basic | $(0.01) | $(0.24) | $0.16 | $1.23 |
| Weighted average number of common shares outstanding — diluted | 228 | 240 | 230 | 245 |
| Net (loss)/income per weighted average common share — diluted | $(0.01) | $(0.24) | $0.16 | $1.22 |
| Dividends Per Common Share | $0.09 | $— | $0.09 | $— |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Net Income/(Loss) | $8 | $(55) | $61 | $306 |
| Other comprehensive (loss)/income, net of tax | | | | |
| Unrealized loss on derivatives, net of income tax benefit of $24, $45, $76, and $131 | (43) | (76) | (132) | (225) |
| Foreign currency translation adjustments, net of income tax benefit of $0, $16, $1 and $4 | 1 | (27) | (1) | (5) |
| Reclassification adjustment for translation gain realized upon sale of Schkopau, net of income tax expense of $6, $0, $6, and $0 | (11) | — | (11) | — |
| Available-for-sale securities, net of income tax benefit/(expense) of $(1), $1, $(1), and $1 | 2 | (1) | 2 | (2) |
| Defined benefit plans | — | — | — | 1 |
| Other comprehensive loss | (51) | (104) | (142) | (231) |
| Comprehensive (loss)/income | (43) | (159) | (81) | 75 |
| Less: Comprehensive income attributable to noncontrolling interest | 9 | — | 18 | — |
| Comprehensive (loss)/income attributable to NRG Energy, Inc. | (52) | (159) | (99) | 75 |
| Dividends for preferred shares | 2 | 2 | 7 | 7 |
| Comprehensive (loss)/income available for common stockholders | $(54) | $(161) | $(106) | $68 |

See accompanying notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In millions, except shares) | September 30, 2012 (unaudited) | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $1,610 | $1,105 |
| Funds deposited by counterparties | 76 | 258 |
| Restricted cash | 237 | 292 |
| Accounts receivable — trade, less allowance for doubtful accounts of $39 and $23 | 1,075 | 834 |
| Inventory | 393 | 308 |
| Derivative instruments | 2,677 | 4,216 |
| Cash collateral paid in support of energy risk management activities | 98 | 311 |
| Prepayments and other current assets | 217 | 273 |
| Total current assets | 6,383 | 7,597 |
| Property, plant and equipment, net of accumulated depreciation of $5,194 and $4,570 | 15,866 | 13,621 |
| Other Assets | | |
| Equity investments in affiliates | 649 | 640 |
| Note receivable — affiliate and capital leases, less current portion | 78 | 342 |
| Goodwill | 1,886 | 1,886 |
| Intangible assets, net of accumulated amortization of $1,628 and $1,452 | 1,188 | 1,419 |
| Nuclear decommissioning trust fund | 469 | 424 |
| Derivative instruments | 309 | 450 |
| Other non-current assets | 392 | 336 |
| Total other assets | 4,971 | 5,497 |
| Total Assets | $27,220 | $26,715 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current portion of long-term debt and capital leases | $374 | $87 |
| Accounts payable | 1,246 | 808 |
| Derivative instruments | 2,462 | 3,751 |
| Deferred income taxes | 15 | 127 |
| Cash collateral received in support of energy risk management activities | 76 | 258 |
| Accrued expenses and other current liabilities | 604 | 640 |
| Total current liabilities | 4,777 | 5,671 |
| Other Liabilities | | |
| Long-term debt and capital leases | 10,968 | 9,745 |
| Nuclear decommissioning reserve | 349 | 335 |
| Nuclear decommissioning trust liability | 277 | 254 |
| Deferred income taxes | 1,092 | 1,389 |
| Derivative instruments | 561 | 464 |
| Out-of-market commodity contracts | 161 | 183 |
| Other non-current liabilities | 896 | 756 |
| Total non-current liabilities | 14,304 | 13,126 |
| Total Liabilities | 19,081 | 18,797 |
| | 249 | 249 |

| | | |
|---|---|---|
| 3.625% convertible perpetual preferred stock (at liquidation value, net of issuance costs) | | |
| Commitments and Contingencies | | |
| Stockholders' Equity | | |
| Common stock | 3 | 3 |
| Additional paid-in capital | 5,388 | 5,346 |
| Retained earnings | 4,002 | 3,987 |
| Less treasury stock, at cost — 76,505,718 and 76,664,199 shares, respectively | (1,920) | (1,924) |
| Accumulated other comprehensive (loss)/income | (68) | 74 |
| Noncontrolling interest | 485 | 183 |
| Total Stockholders' Equity | 7,890 | 7,669 |
| Total Liabilities and Stockholders' Equity | $27,220 | $26,715 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine months ended September 30, 2012 | 2011 |
|---|---|---|
| | (In millions) | |
| Cash Flows from Operating Activities | | |
| Net income | $61 | $306 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Distributions and equity in earnings of unconsolidated affiliates | 8 | 8 |
| Depreciation and amortization | 703 | 665 |
| Provision for bad debts | 40 | 41 |
| Amortization of nuclear fuel | 29 | 31 |
| Amortization of financing costs and debt discount/premiums | 25 | 25 |
| Loss on debt extinguishment | 8 | 58 |
| Amortization of intangibles and out-of-market commodity contracts | 108 | 118 |
| Amortization of unearned equity compensation | 27 | 14 |
| Changes in deferred income taxes and liability for uncertain tax benefits | (261) | (829) |
| Changes in nuclear decommissioning trust liability | 25 | 20 |
| Changes in derivative instruments | 360 | (201) |
| Changes in collateral deposits supporting energy risk management activities | 213 | 7 |
| Impairment charge on investment | — | 481 |
| Impairment charge on emission allowances | — | 160 |
| Cash used by changes in other working capital | (288) | (236) |
| Net Cash Provided by Operating Activities | 1,058 | 668 |
| Cash Flows from Investing Activities | | |
| Acquisitions of businesses, net of cash acquired | (40) | (352) |
| Capital expenditures | (2,474) | (1,355) |
| Increase in restricted cash, net | (96) | (92) |
| Decrease/(increase) in restricted cash to support equity requirements for U.S. DOE funded projects | 151 | (316) |
| (Increase)/decrease in notes receivable | (22) | 27 |
| Purchases of emission allowances | (8) | (27) |
| Proceeds from sale of emission allowances | 8 | 6 |
| Investments in nuclear decommissioning trust fund securities | (341) | (314) |
| Proceeds from sales of nuclear decommissioning trust fund securities | 316 | 294 |
| Proceeds from renewable energy grants | 49 | — |
| Proceeds from sale of assets, net of cash disposed of | 137 | 14 |
| Investments in unconsolidated affiliates | — | (17) |
| Other | (9) | (29) |
| Net Cash Used by Investing Activities | (2,329) | (2,161) |
| Cash Flows from Financing Activities | | |
| Payment of dividends to common and preferred stockholders | (28) | (7) |
| Payment for treasury stock | — | (378) |
| Net payments for settlement of acquired derivatives that include financing elements | (65) | (61) |
| Sale proceeds and other contributions from noncontrolling interests in subsidiaries | 316 | — |
| Proceeds from issuance of long-term debt | 2,541 | 5,710 |
| Decrease in restricted cash supporting funded letter of credit | — | 1,300 |

| | | |
|---|---|---|
| Payment for settlement of funded letter of credit facility | — | (1,300) |
| Proceeds from issuance of common stock | — | 2 |
| Payment of debt issuance and hedging costs | (30) | (149) |
| Payments for short and long-term debt | (955) | (5,450) |
| Net Cash Provided/(Used) by Financing Activities | 1,779 | (333) |
| Effect of exchange rate changes on cash and cash equivalents | (3) | 2 |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 505 | (1,824) |
| Cash and Cash Equivalents at Beginning of Period | 1,105 | 2,951 |
| Cash and Cash Equivalents at End of Period | $1,610 | $1,127 |

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 an integrated wholesale power generation and retail electricity company that aspires to be a leader in the way the industry and consumers think about, use, produce and deliver energy and energy services in major competitive power markets in the United States. First, NRG is a wholesale power generator engaged in the ownership and operation of power generation facilities; the trading of energy, capacity and related products; and the transacting in and trading of fuel and transportation services. Second, NRG is a retail electricity company engaged in the supply of electricity, energy services, and cleaner energy products to retail electricity customers in deregulated markets through its Retail businesses, which include Reliant Energy, Green Mountain Energy and Energy Plus. Finally, NRG is focused on the deployment and commercialization of potential disruptive clean energy technologies, like electric vehicles, Distributed Solar and smart meter technology, which have the potential to change the nature of the power supply industry.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission's, or 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 Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2011, or 2011 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, 2012, and the results of operations, comprehensive (loss)/income and cash flows for the three and nine months ended September 30, 2012, and 2011.

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.

Note 2 — Summary of Significant Accounting Policies

Other Cash Flow Information

NRG’s investing activities exclude capital expenditures of $712 million which were accrued and unpaid at September 30, 2012, primarily for solar projects under construction.

Noncontrolling Interests

The following table reflects the changes in NRG's noncontrolling interest balance:

| | (In millions) |
|---|---|
| Balance as of December 31, 2011 | $183 |
| Sale proceeds and cash contributions | 284 |
| Comprehensive income attributable to noncontrolling interest | 18 |
| Balance as of September 30, 2012 | $485 |

Tax Credits

NRG accounts for income taxes in accordance with Accounting Standards Codification, or ASC, 740, Income Taxes, or ASC 740, which requires that the Company use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences, as further described in Note 2, Summary of Significant Accounting Policies, to the Company's 2011 Form 10-K. NRG reduces its current income tax expense in the consolidated statement of operations for any investment tax credits, or ITCs, that are not convertible into cash grants, as well as other tax credits, in the period the tax credit is generated. ITCs that are convertible into cash grants, as well as the deferred income tax benefit generated by the difference in the financial statement and tax basis of the related assets, are recorded as a reduction to the carrying value of the underlying property and subsequently amortized to earnings on a straight-line basis over the useful life of each underlying property.

Recent Accounting Developments

Effective January 1, 2012, the Company adopted the provisions of Accounting Standards Update, or ASU, No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income, or ASU No. 2011-05, and began presenting the total of comprehensive income, the components of net income and the components of other comprehensive income in two separate but consecutive statements. The provisions of ASU No. 2011-05 are required to be adopted retroactively. 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 July 20, 2012, the Company entered into an agreement, or the Merger Agreement, to acquire 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 22,700 MW. The Company will issue, as consideration for the acquisition, 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 will be paid in cash. Based upon total GenOn shares outstanding as of September 30, 2012, the Company expects to issue approximately 94 million shares of NRG common stock, or 29% of total common shares outstanding following the close of the transaction.

NRG and GenOn will hold their respective special meetings of stockholders on November 9, 2012. The stockholders who held shares of NRG and GenOn on Friday, October 5, 2012, will be entitled to vote at their respective special meeting on the proposals pertaining to the merger of the companies.

On September 21, 2012, the Department of Justice and the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. On October 25, 2012, the Public Utility Commission of Texas, or PUCT, approved the merger. Additionally, the 90-day prior notice period to the California Public Utilities Commission, or CPUC, required under California law expired on October 31, 2012.

The merger remains subject to the satisfaction or waiver of other closing conditions, including approval by the stockholders of both companies and regulatory approvals by the Federal Energy Regulatory Commission, or the FERC, and the New York Public Service Commission, or NYPSC. Additionally, the companies have requested a threshold determination by the U.S. Nuclear Regulatory Commission, or the NRC, that its approval is not required. The acquisition is expected to close by the first quarter of 2013.

2012 Dispositions

Agua Caliente
On January 18, 2012, the Company completed the sale of 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 consolidate the project.

Saale Energie GmbH

On July 17, 2012, the Company completed the sale of 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.

2011 Acquisitions

The Company's acquisitions that are considered business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations, or ASC 805, with identifiable assets acquired and liabilities assumed provisionally recorded at their estimated fair values on the acquisition date. The provisional amounts recognized are subject to revision until the evaluations are completed and to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date, are required to be finalized within a measurement period not to exceed one year. The Company made several acquisitions in 2011, which were recorded as business combinations under ASC 805, for which the accounting was not finalized as of December 31, 2011. See Note 3, Business Acquisitions and Dispositions and Note 12, Debt and Capital Leases, in the Company's 2011 Form 10-K, for additional information related to these acquisitions.

The accounting for the acquisitions of Energy Plus, California Valley Solar Ranch, or CVSR, Agua Caliente and Ivanpah were completed as of March 31, 2012, at which point the provisional fair values became final with no material changes.

Note 4 — Nuclear Innovation North America LLC, or NINA, Impairment Charge

As discussed in detail in Note 4, Nuclear Innovation North America LLC Developments, Including Impairment Charge, to the Company's 2011 Form 10-K, NRG deconsolidated NINA as of March 31, 2011, and recorded an impairment charge of $495 million for the nine months ended September 30, 2011, including $481 million in the quarter ended March 31, 2011 for the full amount of its investment, $11 million in the quarter ended June 30, 2011 and $3 million for the quarter ended September 30, 2011.

Note 5 — Fair Value of Financial Instruments

This footnote should be read in conjunction with the complete description under Note 5, Fair Value of Financial Instruments, to the Company's 2011 Form 10-K.

For cash and cash equivalents, funds deposited by counterparties, 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. Debt securities, equity securities, 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 estimated carrying values and fair values of NRG's recorded financial instruments not carried at fair market value are as follows:

| | As of September 30, 2012 | | As of December 31, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (In millions) | | | |
| Assets: | | | | |
| Notes receivable | $84 | $84 | $156 | $161 |
| Liabilities: | | | | |
| Long-term debt, including current portion | 11,342 | 11,817 | 9,729 | 9,716 |

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 debt securities, 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

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

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

| | As of September 30, 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 | $— | $— | $11 | $11 |
| Marketable equity securities | 1 | — | — | 1 |
| Trust fund investments: | | | | |
| Cash and cash equivalents | 4 | — | — | 4 |
| U.S. government and federal agency obligations | 34 | — | — | 34 |
| Federal agency mortgage-backed securities | — | 63 | — | 63 |
| Commercial mortgage-backed securities | — | 6 | — | 6 |
| Corporate debt securities | — | 72 | — | 72 |
| Equity securities | 240 | — | 46 | 286 |
| Foreign government fixed income securities | — | 5 | — | 5 |
| Derivative assets: | | | | |
| Commodity contracts | 1,733 | 1,226 | 27 | 2,986 |
| Total assets | $2,012 | $1,372 | $84 | $3,468 |
| Derivative liabilities: | | | | |
| Commodity contracts | $1,601 | $1,263 | $25 | $2,889 |
| Interest rate contracts | — | 134 | — | 134 |
| Total liabilities | $1,601 | $1,397 | $25 | $3,023 |

| | As of December 31, 2011 | | | |
|---|---|---|---|---|
| | 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 | $— | $— | $7 | $7 |
| Marketable equity securities | 1 | — | — | 1 |
| Trust fund investments: | | | | |
| Cash and cash equivalents | 2 | — | — | 2 |
| U.S. government and federal agency obligations | 44 | — | — | 44 |
| Federal agency mortgage-backed securities | — | 63 | — | 63 |
| Commercial mortgage-backed securities | — | 7 | — | 7 |
| Corporate debt securities | — | 54 | — | 54 |
| Equity securities | 209 | — | 42 | 251 |
| Foreign government fixed income securities | — | 4 | — | 4 |
| Derivative assets: | | | | |
| Commodity contracts | 2,661 | 1,930 | 75 | 4,666 |
| Total assets | $2,917 | $2,058 | $124 | $5,099 |
| Derivative liabilities: | | | | |
| Commodity contracts | $2,757 | $1,283 | $67 | $4,107 |
| Interest rate contracts | — | 108 | — | 108 |

| | | | | |
|---|---|---|---|---|
| Total liabilities | $2,757 | $1,391 | $67 | $4,215 |

There were no transfers during the three and nine months ended September 30, 2012, and 2011, between Levels 1 and 2. The following tables reconcile, for the three and nine months ended September 30, 2012, and 2011, 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, 2012 | | | | Nine months ended September 30, 2012 | | | |
| (In millions) | Debt Securities | Trust Fund Investments | Derivatives[a] | Total | Debt Securities | Trust Fund Investments | Derivatives[a] | Total |
| Beginning balance | $9 | $43 | $ 171 | $223 | $7 | $ 42 | $ 8 | $57 |
| Total gains/(losses) - 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 |
| The amount of the total (losses)/gains for the period included in earnings attributable to the change in unrealized gains relating to assets still held as of September 30, 2012 | $— | $— | $ (5) | $(5) | $— | $ — | $ 1 | $1 |

| | Fair Value Measurement Using Significant Unobservable Inputs (Level 3) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three months ended September 30, 2011 | | | | Nine months ended September 30, 2011 | | | |
| (In millions) | Debt Securities | Trust Fund Investments | Derivatives[a] | Total | Debt Securities | Trust Fund Investments | Derivatives[a] | Total |
| Beginning balance | $9 | $41 | $ (26) | $24 | $8 | $ 39 | $ (27) | $20 |
| Total gains/(losses) - realized/unrealized: | | | | | | | | |
| Included in earnings | — | — | — | — | — | — | 19 | 19 |
| Included in OCI | (1) | — | — | (1) | — | — | — | — |
| Included in nuclear decommissioning obligations | — | (8) | — | (8) | — | (7) | — | (7) |
| Purchases | — | — | (2) | (2) | — | 1 | 6 | 7 |
| Transfers into Level 3 [b] | — | — | 13 | 13 | — | — | (17) | (17) |
| Transfers out of Level 3 [b] | — | — | 8 | 8 | — | — | 12 | 12 |
| Ending balance as of September 30, 2011 | $8 | $33 | $ (7) | $34 | $8 | $ 33 | $ (7) | $34 |
| The amount of the total gains for the period included in earnings attributable to the change in unrealized gains relating to assets still held as of September 30, 2011 | $— | $— | $ (1) | $(1) | $— | $ — | $ 6 | $6 |

(a) Consists of derivatives 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

The majority of NRG's contracts are exchange-traded contracts with readily available quoted market prices. A portion 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 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. Contracts valued with prices provided by models and other valuation techniques make up 1% of the total derivative assets and 1% 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 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, 2012, the credit reserve resulted in a $9 million increase in fair value which is composed of a $4 million gain in Other Comprehensive Income, or OCI, and a $5 million gain in operating revenue and cost of operations. As of September 30, 2011, the credit reserve resulted in a $15 million decrease in fair value which is composed of a $5 million loss in OCI and a $10 million loss 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 2011 Form 10-K, the following item 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, 2012, counterparty credit exposure to a portion of the Company's counterparties was $620 million and NRG held collateral (cash and letters of credit) against those positions of $28 million, resulting in a net exposure of $592 million. Counterparty credit exposure is valued through observable market quotes and discounted at the risk free 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 Normal Purchase Normal Sale, or 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 | 46 | % |
| Utilities, energy merchants, marketers and other | 51 | |
| Coal and emissions | 1 | |
| Independent System Operators, or ISOs | 2 | |
| Total as of September 30, 2012 | 100 | % |

| Category | Net Exposure [(a)] (% of Total) | |
|---|---|---|
| Investment grade | 63 | % |
| Non-Investment grade | 2 | |
| Non-rated [(b)] | 35 | |
| Total as of September 30, 2012 | 100 | % |

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

(b) For non-rated counterparties, the majority 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 representing more than 10% of total net exposure discussed above and the aggregate of such counterparties' exposure was $124 million. Approximately 83% of NRG's positions relating to this credit risk exposure roll-off by the end of 2013. 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 Power Purchase Agreements, or PPAs. As external sources or observable market quotes are not available to estimate such exposure, the Company valued 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, 2012, credit risk exposure to these counterparties attributable to NRG's ownership interests was approximately $1.1 billion for the next five years. This amount excludes potential credit exposures for projects with long term PPAs that have not reached commercial operations. Many of these power contracts are with utilities or public power entities that have strong credit quality and specific public utility commission or other regulatory support. These factors significantly reduce the risk of loss.

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, or C&I, customers and the residential and small business, or mass, market. Retail credit risk results when a customer fails to pay for 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, 2012, the Company's retail customer credit exposure was diversified across many customers and various industries, with a significant portion of the exposure with government entities.

Note 6 — Nuclear Decommissioning Trust Fund

NRG's nuclear decommissioning trust fund assets, which are for its portion of the decommissioning of the South Texas Project, or STP Units 1 & 2, 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, or ASC 980, 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 the 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, 2012 | | | | As of December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| (In millions, except otherwise noted) | Fair Value | Unrealized Gains | Unrealized Losses | Weighted-average maturities (in years) | Fair Value | Unrealized Gains | Unrealized Losses | Weighted-average maturities (in years) |
| Cash and cash equivalents | $4 | $— | $— | — | $2 | $— | $— | — |
| U.S. government and federal agency obligations | 33 | 2 | — | 11 | 43 | 3 | — | 10 |
| Federal agency mortgage-backed securities | 63 | 3 | — | 23 | 63 | 3 | — | 23 |
| Commercial mortgage-backed securities | 6 | — | — | 29 | 7 | — | — | 28 |
| Corporate debt securities | 72 | 4 | — | 11 | 54 | 3 | 1 | 10 |
| Equity securities | 286 | 143 | — | — | 251 | 113 | 1 | — |
| Foreign government fixed income securities | 5 | — | — | 6 | 4 | — | — | 8 |
| Total | $469 | $152 | $— | | $424 | $122 | $2 | |

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, | |
|---|---|---|
| | 2012 | 2011 |
| | (In millions) | |
| Realized gains | $8 | $4 |
| Realized losses | 5 | 3 |
| Proceeds from sale of securities | 316 | 294 |

Note 7 — Accounting for Derivative Instruments and Hedging Activities

This footnote should be read in conjunction with the complete description under Note 6, Accounting for Derivative Instruments and Hedging Activities, to the Company's 2011 Form 10-K.

Energy-Related Commodities

As of September 30, 2012, 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, 2012, NRG had interest rate derivative instruments on recourse debt extending through 2013 and 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, 2012, and December 31, 2011. 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.

| Commodity | Units | Total Volume September 30, 2012 | December 31, 2011 |
|---|---|---|---|
| | | (In millions) | |
| Emissions | Short Ton | (1) | (2) |
| Coal | Short Ton | 34 | 37 |
| Natural Gas | MMBtu | (244) | 13 |
| Oil | Barrel | — | 1 |
| Power | MWh | 12 | 4 |
| Interest | Dollars | $2,251 | $2,121 |

Fair Value of Derivative Instruments

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

| | Fair Value Derivative Assets | | Derivative Liabilities | |
|---|---|---|---|---|
| | September 30, 2012 | December 31, 2011 | September 30, 2012 | December 31, 2011 |
| | (In millions) | | | |
| Derivatives Designated as Cash Flow Hedges: | | | | |
| Interest rate contracts current | $— | $— | $11 | $ 39 |
| Interest rate contracts long-term | — | — | 96 | 68 |
| Commodity contracts current | 1 | 318 | 2 | — |
| Commodity contracts long-term | — | — | 1 | 1 |
| Total Derivatives Designated as Cash Flow Hedges | 1 | 318 | 110 | 108 |
| Derivatives Not Designated as Cash Flow Hedges: | | | | |
| Interest rate contracts current | — | — | 13 | — |
| Interest rate contracts long-term | — | — | 14 | 1 |
| Commodity contracts current | 2,676 | 3,898 | 2,436 | 3,712 |
| Commodity contracts long-term | 309 | 450 | 450 | 394 |
| Total Derivatives Not Designated as Cash Flow Hedges | 2,985 | 4,348 | 2,913 | 4,107 |
| Total Derivatives | $2,986 | $ 4,666 | $3,023 | $ 4,215 |

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, 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) |

| | Three months ended September 30, 2011 | | | Nine months ended September 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Energy Commodities | Interest Rate | Total | Energy Commodities | Interest Rate | Total |
| | (In millions) | | | | | |
| Accumulated OCI beginning balance | $332 | $(40) | $292 | $488 | $(47) | $441 |
| Reclassified from accumulated OCI to income: | | | | | | |
| Due to realization of previously deferred amounts | (91) | — | (91) | (281) | 11 | (270) |
| Mark-to-market of cash flow hedge accounting contracts | 19 | (4) | 15 | 53 | (8) | 45 |
| Accumulated OCI ending balance, net of $136 tax | $260 | $(44) | $216 | $260 | $(44) | $216 |
| Gains/(losses) expected to be realized from OCI during the next 12 months, net of $107 tax | $186 | $(2) | $184 | $186 | $(2) | $184 |
| Gains recognized in income from the ineffective portion of cash flow hedges | $9 | $— | $9 | $8 | $3 | $11 |

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.

Accounting guidelines require a high degree of correlation between the derivative and the hedged item throughout the period in order to qualify as a cash flow hedge. As of April 30, 2012, the Company's regression analysis for natural gas prices to ERCOT power prices, while positively correlated, did not meet the required threshold for cash flow hedge accounting for calendar year 2012. As a result, the Company de-designated its 2012 ERCOT cash flow hedges as of April 30, 2012, and prospectively marked these derivatives to market through the income statement.

Impact of Derivative Instruments on the Statement of Operations

Unrealized gains and losses associated with changes in the fair value of derivative instruments not accounted for as cash flow hedges and ineffectiveness of hedge derivatives are reflected in current period earnings.

The following table summarizes the pre-tax effects of economic hedges that have not been designated as cash flow hedges, ineffectiveness on cash flow hedges, and trading activity on the Company's statement of operations. The effect of commodity hedges is included within operating revenues and cost of operations and the effect of interest rate hedges is included in interest expense.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In millions) | 2012 | 2011 | 2012 | 2011 |
| Unrealized mark-to-market results | | | | |
| Reversal of previously recognized unrealized (gains)/losses on settled positions related to economic hedges | $(85) | $50 | $(160) | $72 |
| Reversal of (gain)/loss positions acquired as part of the Reliant Energy and Green Mountain Energy acquisitions | (15) | (11) | 5 | 60 |
| Net unrealized (losses)/gains on open positions related to economic hedges | (159) | (7) | (78) | 77 |
| Gains/(losses) on ineffectiveness associated with open positions treated as cash flow hedges | — | 9 | (51) | 8 |
| Total unrealized mark-to-market (losses)/gains for economic hedging activities | (259) | 41 | (284) | 217 |
| Reversal of previously recognized unrealized (gains)/losses on settled positions related to trading activity | (15) | 8 | (45) | 22 |
| Net unrealized (losses)/gains on open positions related to trading activity | (3) | — | 33 | 22 |
| Total unrealized mark-to-market(losses)/gains for trading activity | (18) | 8 | (12) | 44 |
| Total unrealized (losses)/gains | $(277) | $49 | $(296) | $261 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In millions) | 2012 | 2011 | 2012 | 2011 |
| Revenue from operations — energy commodities | $(395) | $89 | $(470) | $193 |
| Cost of operations | 118 | (40) | 174 | 68 |
| Total impact to statement of operations — energy commodities | $(277) | $49 | $(296) | $261 |
| Total impact to statement of operations — interest rate contracts | $— | $(1) | $(12) | $2 |

The reversal of gain or loss positions acquired as part of the Reliant Energy and Green Mountain Energy acquisitions were valued based upon the forward prices on the acquisition dates. The roll off amounts were offset by realized gains or losses at the settled prices and are reflected in the cost of operations during the same period.

For the nine months ended September 30, 2012, the unrealized loss from open economic hedge positions was primarily the result of a decrease in forward coal prices.

As of June 30, 2012 NRG had interest rate swaps designated as cash flow hedges on the Alpine solar project. The notional amount on the swaps exceeded the actual debt draws on the project. As such, NRG discontinued cash flow hedge accounting for these contracts and $4 million of loss previously deferred in OCI was recognized in earnings for the nine months ended September 30, 2012.

For the nine months ended September 30, 2011, the unrealized gain from open economic hedge positions was the result of an increase in value of forward purchases and sales of natural gas, electricity and fuel due to a decrease in forward power and gas prices.

Credit Risk Related Contingent Features

Certain of the Company's hedging agreements contain provisions that require the Company to post additional collateral if the counterparty determines that there has been deterioration in credit quality, generally termed “adequate assurance” under the agreements, or requires the Company to post additional collateral if there were a one notch downgrade in the Company's credit rating. The collateral required for contracts with adequate assurance clauses that are in a net liability position as of September 30, 2012, was $91 million. The collateral required for contracts with credit rating contingent features was $51 million. The Company is also a party to certain marginable agreements where NRG has a net liability position, but the counterparty has not called for the collateral due, which was

approximately $56 million as of September 30, 2012.
See Note 5, Fair Value of Financial Instruments, to this Form 10-Q for discussion regarding concentration of credit risk.

Note 8 — Debt and Capital Leases

This footnote should be read in conjunction with the complete description under Note 12, Debt and Capital Leases, to the Company's 2011 Form 10-K.

Long-term debt and capital leases consisted of the following:

| | September 30, 2012 | December 31, 2011 | Interest rate % [a] |
|---|---|---|---|
| | (In millions, except rates) | | |
| NRG Recourse Debt: | | | |
| Senior notes, due 2023 | $990 | $— | 6.625 |
| Senior notes, due 2021 | 1,128 | 1,200 | 7.875 |
| Senior notes, due 2020 | 1,100 | 1,100 | 8.250 |
| Senior notes, due 2019 | 800 | 800 | 7.625 |
| Senior notes, due 2019 | 692 | 691 | 8.500 |
| Senior notes, due 2018 | 1,200 | 1,200 | 7.625 |
| Senior notes, due 2017 | 270 | 1,090 | 7.375 |
| Term loan facility, due 2018 | 1,577 | 1,588 | L+3.00 |
| Indian River Power LLC, tax-exempt bonds, due 2040 | 57 | 57 | 6.000 |
| Indian River Power LLC, tax-exempt bonds, due 2045 | 157 | 148 | 5.375 |
| Dunkirk Power LLC, tax-exempt bonds, due 2042 | 59 | 59 | 5.875 |
| Fort Bend County, tax-exempt bonds, due 2038 | 16 | — | Weekly per SIFMA rate [b] |
| Subtotal NRG Recourse Debt | 8,046 | 7,933 | |
| NRG Non-Recourse Debt: | | | |
| Ivanpah Financing: | | | |
| Solar Partners I, due 2014 and 2033 | 443 | 290 | 1.126 - 3.991 |
| Solar Partners II, due 2014 and 2038 | 453 | 314 | 1.116 - 4.195 |
| Solar Partners VIII, due 2014 and 2038 | 411 | 270 | 1.381 - 4.256 |
| NRG Peaker Finance Co. LLC, bonds, due 2019 | 194 | 190 | L+1.07 |
| Agua Caliente Solar, LLC, due 2037 | 541 | 181 | 2.395 - 3.256 |
| NRG West Holdings LLC, term loan, due 2023 | 294 | 159 | L+2.25 - 2.75 |
| NRG Energy Center Minneapolis LLC, senior secured notes, due 2013, 2017 and 2025 | 141 | 151 | 5.95 - 7.31 |
| CVSR - High Plains Ranch II LLC, due 2037 | 548 | — | 0.611 - 2.639 |
| South Trent Wind LLC, financing agreement, due 2020 | 73 | 75 | L+2.50 - 2.625 |
| Solar Power Partners - SPP Fund II/IIB LLC term loans, due 2017 | 15 | 17 | L+3.50 |
| Solar Power Partners - SPP Fund III LLC term loan, due 2024 | 40 | 42 | L+3.50 |
| NRG Solar Roadrunner LLC, due 2031 | 46 | 61 | L+2.01 |
| NRG Solar Blythe LLC, credit agreement, due 2028 | 26 | 27 | L+2.50 |
| NRG Solar Avra Valley LLC | 40 | — | L+2.25 |
| Other | 31 | 19 | various |
| Subtotal NRG Non-Recourse Debt | 3,296 | 1,796 | |
| Subtotal long-term debt | 11,342 | 9,729 | |
| Capital leases: | | | |
| | — | 103 | |

| | | |
|---|---|---|
| Saale Energie GmbH, Schkopau capital lease, due 2021 | | |
| Subtotal | 11,342 | 9,832 |
| Less current maturities | 374 | 87 |
| Total long-term debt and capital leases | $10,968 | $9,745 |

(a) L+ equals LIBOR plus x%.
(b) Securities Industry and Financial Markets Association, or SIFMA

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Issuance of 2023 Senior Notes

6.625% 2023 Senior Notes

On September 24, 2012, NRG issued $990 million aggregate principal amount at par of 6.625% Senior Notes due 2023, or the 2023 Senior Notes. The 2023 Senior Notes were issued under an Indenture, dated February 2, 2006, between NRG and Law Debenture Trust Company of New York, as trustee, as amended through a Supplemental Indenture, which is discussed in Note 12, Debt and Capital Leases, in the Company's 2011 Form 10-K. The Indenture and the form of the note provide, among other things, that the 2023 Senior Notes will be senior unsecured obligations of NRG.

The proceeds, net of issuance costs, of $978 million for the 2023 Senior Notes will be used to complete the tender offer of the 2017 Senior Notes, as discussed below. Interest is payable semi-annually beginning on March 15, 2013, until the maturity date of March 15, 2023.

Prior to September 15, 2015, NRG may redeem up to 35% of the aggregate principal amount of the 2023 Senior Notes with the net proceeds of certain equity offerings, at a redemption price of 106.625% of the principal amount. Prior to September 15, 2017, NRG may redeem all or a portion of the 2023 Senior Notes at a price equal to 100% of the principal amount plus a premium and accrued and unpaid interest. The premium is the greater of: (i) 1% of the principal amount of the notes; or (ii) the excess of the principal amount of the note over the following: the present value of 103.313% of the note, plus interest payments due on the note from the date of redemption through September 15, 2017, discounted at a Treasury rate plus 0.50%. In addition, on or after September 15, 2017, NRG may redeem some or all of the notes at redemption prices expressed as percentages of principal amount as set forth in the following table, plus accrued and unpaid interest on the notes redeemed to the first applicable redemption date:

| Redemption Period | Redemption Percentage | |
|---|---|---|
| September 15, 2017 to September 14, 2018 | 103.313 | % |
| September 15, 2018 to September 14, 2019 | 102.208 | % |
| September 15, 2019 to September 14, 2020 | 101.104 | % |
| September 15, 2020 and thereafter | 100.000 | % |

In connection with the 2023 Senior Notes, NRG entered into a registration payment arrangement. For the first 90-day period immediately following a registration default, additional interest will be paid in an amount equal to 0.25% per annum of the principal amount of 2023 Senior Notes outstanding, as applicable. The amount of interest paid will increase by an additional 0.25% per annum with respect to each subsequent 90-day period until all registration defaults are cured, up to a maximum amount of interest of 1.0% per annum of the principal amount of the 2023 Senior Notes outstanding, as applicable. The additional interest is paid on the next scheduled interest payment date and following the cure of the registration default, the additional interest payment will cease.

Redemption of 2017 Senior Notes

On September 24, 2012, the Company redeemed $820 million of the 2017 Senior Notes through a tender offer, at an early redemption percentage of 104.125%. On October 9, 2012, an additional $0.4 million was tendered at a redemption percentage of 101.125%, and on October 24, 2012, the remaining $270 million of the 2017 Senior Notes were called, at a redemption percentage of 103.688%. Accordingly, the $270 million still outstanding as of September 30, 2012 was reclassified to current portion of long-term debt on the consolidated balance sheet. A loss on the extinguishment of the 2017 Senior Notes of $41 million was recorded during the three months ended September 30, 2012, and an additional $10 million was recorded in October, 2012; these losses primarily consisted of the premiums paid on the redemption and the write-off of previously deferred financing costs.

Fort Bend County Tax-Exempt Bonds

On May 3, 2012, NRG executed a $54 million tax-exempt bond financing with a maturity date of May 1, 2038, issued by the Fort Bend County Industrial Development Corporation, or the Fort Bend County Tranche A Bonds. The Fort Bend County Tranche A Bonds will be used for the construction of a peaking unit with one or more components of a carbon capture system at the W.A. Parish Generating Station in Thompsons, TX, or W.A. Parish. The bonds initially bore weekly interest based on the SIFMA rate, and were enhanced by a letter of credit under the Company's 2011 Revolving Credit Facility covering amounts drawn. The proceeds drawn through September 30, 2012 were $16 million, and the remaining balance will be drawn over time as construction and other qualifying costs are paid.

On October 18, 2012, NRG fixed the rate on the Fort Bend County Tranche A Bonds at 4.75% payable semiannually, and the letter of credit was canceled and replaced with an NRG guarantee. Also, the holders no longer have the option to tender the bonds at any time; accordingly, the outstanding balance as of September 30, 2012 was reclassified to long-term debt on the consolidated balance sheet.

On October 18, 2012, NRG also executed an additional $73 million tax-exempt bond financing, with a maturity date of November 1, 2042, also issued by the Fort Bend County Industrial Development Corporation, or the Fort Bend County Tranche B Bonds. The Fort Bend County Tranche B Bonds will be used for environmental and maintenance upgrades at W.A. Parish. The bonds were issued at a fixed rate of 4.75% payable semiannually, and are supported by an NRG guarantee. The proceeds will be drawn over time as qualifying expenditures are paid.

NRG Repowering Holdings LLC

On January 25, 2012, NRG Repowering Holdings LLC, or NRG Repowering, terminated its revolving credit facility, repaid the $5 million then outstanding, and a supporting letter of credit issued by NRG was returned.

On January 25, 2012, NRG Repowering entered into a Credit and Reimbursement Agreement which provides for a $10 million working capital facility that can be used for general corporate purposes or to issue letters of credit, and an $80 million letter of credit facility. Interest on the letters of credit accrues at 3.5% and on loans under the working capital facility at the London Inter-Bank Offered Rate, or LIBOR, plus 3.50%. The facility is secured by NRG Repowering's investments in GenConn Energy LLC and South Trent Wind LLC, and matures January 25, 2015. As of September 30, 2012, NRG Repowering had issued a $10 million letter of credit under the working capital facility and $80 million in letters of credit under the letter of credit facility.

Alpine Financing

On March 16, 2012, NRG, through its wholly-owned subsidiary, NRG Solar Alpine LLC, or Alpine, entered into a credit agreement with a group of lenders, or the Alpine Financing Agreement, for a $166 million construction loan that will convert to a term loan upon completion of the project and a $68 million cash grant loan. The construction loan has an interest rate of LIBOR plus an applicable margin of 2.50% and the cash grant loan has an interest rate of LIBOR plus an applicable margin of 2.25%. The term loan has an interest rate of LIBOR plus an applicable margin of 2.50%, which escalates 0.25% on the fifth anniversary of the term conversion. The term loan, which is secured by all the assets of Alpine, matures on the 10$^{th}$ anniversary of the term conversion and amortizes based upon a predetermined schedule. The cash grant loan matures upon the earlier of the receipt of the cash grant or February 2013. The Alpine Financing Agreement also includes a letter of credit facility on behalf of Alpine of up to $37 million. Alpine pays an availability fee of 100% of the applicable margin on issued letters of credit. As of September 30, 2012, $2 million was outstanding under the construction loan, nothing was outstanding under the cash grant loans, and $10 million in letters of credit in support of the project were issued.

Also related to the Alpine Financing Agreement, on March 16, 2012, Alpine entered into a series of fixed for floating interest rate swaps for at least 85% of the outstanding term loan amount, intended to hedge the risks associated with floating interest rates. Alpine will pay its counterparty the equivalent of a 2.74% fixed interest payment on a predetermined notional value, and Alpine will receive quarterly the equivalent of a floating interest payment based on a one month LIBOR calculated on the same notional value through December 31, 2012 and based on a three month LIBOR from December 31, 2012 through the term loan maturity date. All interest rate swap payments by Alpine and its counterparty are made monthly through December 31, 2012, and quarterly thereafter and the LIBOR rate is determined in advance of each interest period. The notional amount of the swap, which became effective March 31, 2012, and matures on December 31, 2029, was $141 million as of September 30, 2012 and will increase and amortize in proportion to the loan.

Roadrunner Financing

On March 20, 2012, NRG, through its wholly-owned subsidiary, NRG Roadrunner LLC, or Roadrunner, received proceeds of $21 million under its cash grant application. These proceeds were used to repay Roadrunner's cash grant loan of $17 million plus accrued interest. The remaining cash was returned to NRG under the terms of the accounts agreement.

CVSR Financing

On March 9, 2012, NRG, through its wholly-owned subsidiary, High Plains Ranch II LLC, completed its first borrowing of $138 million under the CVSR Financing Agreement with the Federal Financing Bank. As of September 30, 2012, $548 million was outstanding under the loan.

Avra Valley Financing

On August 30, 2012, NRG, through its wholly-owned subsidiary, NRG Solar Avra Valley LLC, or Avra Valley, entered into a credit agreement with a bank, or the Avra Valley Financing Agreement, for a $66 million construction loan that will convert to a term loan upon completion of the project and an $8 million cash grant loan. Both the construction and cash grant loans have interest rates of LIBOR plus an applicable margin of 2.25%. The term loan has an interest rate of LIBOR plus an applicable margin of 2.25%, which escalates 0.25% on the fifth, tenth, and fifteenth anniversary of the term conversion. The term loan, which is secured by all the assets of Avra Valley, matures on the 18th anniversary of the term conversion and amortizes based upon a predetermined schedule. The cash grant loan matures upon the earlier of three days after the receipt of the cash grant or May 2013. The Avra Valley Financing Agreement also includes a letter of credit facility on behalf of Avra Valley of up to $4 million. Avra Valley pays an availability fee of 100% of the applicable margin on issued letters of credit. As of September 30, 2012, $40 million was outstanding under the construction loan, nothing was outstanding under the cash grant loans, and no letters of credit in support of the project were issued.

Also related to the Avra Valley Financing Agreement, on August 30, 2012, Avra Valley entered into a fixed for floating interest rate swap for at least 90% of the outstanding term loan amount, intended to hedge the risks associated with floating interest rates. Avra Valley will pay its counterparty the equivalent of a 2.333% fixed interest payment on a predetermined notional value, and Avra Valley will receive quarterly the equivalent of a floating interest payment based on a 3 month LIBOR calculated on the same notional value through the term loan maturity date. All interest rate swap payments by Avra Valley and its counterparty are made quarterly and the LIBOR rate is determined in advance of each interest period. The original notional amount of the swap, which becomes effective November 30, 2012, and matures on November 30, 2030 is $59 million and will amortize in proportion to the loan.

Note 9 — Variable Interest Entities, or VIEs

NRG has interests in entities that are considered VIEs under ASC 810, Consolidation, but NRG is not considered the primary beneficiary. NRG accounts for its interests in these entities under the equity method of accounting.

GenConn Energy LLC — Through its subsidiary, NRG Connecticut Peaking Development LLC, NRG owns a 50% interest in GenConn, a limited liability company which owns and operates two 200 MW peaking generation facilities in Connecticut at NRG's Devon and Middletown sites. NRG's maximum exposure to loss is limited to its equity investment, which was $125 million as of September 30, 2012.

Sherbino I Wind Farm LLC — NRG owns a 50% interest in Sherbino, a joint venture with BP Wind Energy North America Inc. NRG's maximum exposure to loss is limited to its equity investment, which was $92 million as of September 30, 2012.

Texas Coastal Ventures, LLC — NRG owns a 50% interest in Texas Coastal Ventures, a joint venture with Hilcorp Energy I, L.P., through its subsidiary Petra Nova LLC. NRG's maximum exposure to loss is limited to its equity investment, which was $53 million as of September 30, 2012.

Note 10 — Changes in Capital Structure

As of September 30, 2012, and December 31, 2011, the Company had 500,000,000 shares of common stock authorized. The following table reflects the changes in NRG's common shares issued and outstanding:

| | Issued | Treasury | Outstanding |
|---|---|---|---|
| Balance as of December 31, 2011 | 304,183,720 | (76,664,199 ) | 227,519,521 |
| Shares issued under LTIP | 608,128 | — | 608,128 |
| Shares issued under ESPP | — | 158,481 | 158,481 |

| | | | |
|---|---|---|---|
| Balance as of September 30, 2012 | 304,791,848 | (76,505,718 ) | 228,286,130 |

Employee Stock Purchase Plan — On April 25, 2012, NRG shareholders approved an increase of 1,000,000 shares available for issuance under the NRG Energy, Inc. Employee Stock Purchase Plan, or ESPP. At September 30, 2012, 1,018,870 shares of treasury stock were available for issuance under the ESPP.

Common Stock Dividends — On August 15, 2012, NRG paid its first quarterly dividend on the Company's common stock of $0.09 per share. On October 15, 2012, NRG declared a quarterly dividend on the Company's common stock of $0.09 per share, payable November 15, 2012, to shareholders of record as of November 1, 2012.

Note 11 — (Loss)/Earnings Per Share

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

The reconciliation of NRG's basic and diluted (loss)/earnings per share is shown in the following table:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In millions, except per share data) | 2012 | 2011 | 2012 | 2011 |
| Basic (loss)/earnings per share attributable to NRG common stockholders | | | | |
| Numerator: | | | | |
| Net (loss)/income attributable to NRG Energy, Inc. | $(1) | $(55) | $43 | $306 |
| Preferred stock dividends | (2) | (2) | (7) | (7) |
| Net (loss)/income attributable to NRG Energy, Inc. available to common stockholders | $(3) | $(57) | $36 | $299 |
| Denominator: | | | | |
| Weighted average number of common shares outstanding | 228 | 240 | 228 | 243 |
| Basic (loss)/earnings per share: | | | | |
| Net (loss)/income attributable to NRG Energy, Inc. | $(0.01) | $(0.24) | $0.16 | $1.23 |
| Diluted (loss)/earnings per share attributable to NRG common stockholders | | | | |
| Numerator: | | | | |
| Net (loss)/income attributable to NRG Energy, Inc. available to common shareholders | $(3) | $(57) | $36 | $299 |
| Denominator: | | | | |
| Weighted average number of common shares outstanding | 228 | 240 | 228 | 243 |
| Incremental shares attributable to the issuance of equity compensation (treasury stock method) | — | — | 2 | 2 |
| Total dilutive shares | 228 | 240 | 230 | 245 |
| Diluted (loss)/earnings per share: | | | | |
| Net (loss)/income attributable to NRG Energy, Inc. | $(0.01) | $(0.24) | $0.16 | $1.22 |

The following table summarizes NRG's outstanding equity instruments that are anti-dilutive and were not included in the computation of the Company's diluted (loss)/earnings per share:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In millions of shares) | 2012 | 2011 | 2012 | 2011 |
| Equity compensation plans | 11 | 7 | 6 | 7 |
| Embedded derivative of 3.625% redeemable perpetual preferred stock | 16 | 16 | 16 | 16 |
| Total | 27 | 23 | 22 | 23 |

Note 12 — Segment Reporting

Effective in fiscal year 2012, NRG's segment structure and its allocation of corporate expenses were updated to reflect how management currently makes financial decisions and allocates resources. The Company has recast the data from prior periods to reflect this change in reportable segments to conform to the current year presentation. The Company's businesses are primarily segregated based on the Retail businesses, conventional power generation, alternative energy businesses and corporate activities. Within NRG's conventional power generation operations, there are distinct components with separate operating results and management structures for the following geographical regions: Texas, Northeast, South Central, West and Other, which includes its international businesses, thermal and chilled water business and maintenance services. The Company's alternative energy businesses include solar and wind assets, electric vehicle services and the carbon capture business. Intersegment sales are accounted for at market.

| (In millions) | | Conventional Power Generation | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Three months ended September 30, 2012 | Retail[a] | Texas[a] | North-east[a] | South Central | West | Other[a] | Alternative Energy[a] | Corporate[a][b] | Elimination | Total |
| Operating revenues | $1,856 | $877 | $274 | $270 | $87 | $68 | $56 | $4 | $(1,161) | $2,331 |
| Depreciation and amortization | 41 | 115 | 32 | 23 | 3 | 4 | 18 | 3 | — | 239 |
| Equity in earnings/(loss) of unconsolidated affiliates | — | — | 3 | — | 4 | 2 | (5) | — | — | 4 |
| (Loss)/income before income taxes | (300) | 299 | 33 | 19 | 35 | 9 | — | (200) | — | (105) |
| Net (loss)/income attributable to NRG Energy, Inc. | $(300) | $299 | $33 | $19 | $35 | $9 | $(9) | $(87) | $— | $(1) |
| Total assets | $3,179 | $12,109 | $1,945 | $1,676 | $909 | $692 | $5,615 | $18,076 | $(16,981) | $27,220 |

[a] Includes intersegment sales and derivative gains and losses of: $3 $1,126 $6 $— $— $12 $10 $4

[b] Includes loss on debt extinguishment of $41 million.

| (In millions) | | Conventional Power Generation | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Three months ended September 30, 2011 | Retail[c] | Texas[c][d] | North-east[c] | South Central | West | Other[c] | Alternative Energy[c] | Corporate[c][e] | Elimination | Total |
| Operating revenues | $1,861 | $817 | $298 | $279 | $45 | $81 | $10 | $5 | $(722) | $2,674 |
| Depreciation and amortization | 48 | 117 | 33 | 23 | 2 | 4 | 7 | 4 | — | 238 |
| Equity in earnings/(loss) of unconsolidated affiliates | — | — | 4 | — | 4 | 3 | 6 | (1) | — | 16 |
| | 36 | (45) | 6 | 21 | 27 | 7 | (12) | (175) | — | (135) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Income/(loss) before income taxes | | | | | | | | | | |
| Net income/(loss) attributable to NRG Energy, Inc. | $36 | $(45) | $ 6 | $21 | $27 | $5 | $(12) | $ (93) | $ — | $(55) |
| (c) Includes intersegment sales and derivative gains and losses of: | $4 | $697 | $3 | $— | $— | $6 | $5 | $5 | | |

(d) Includes impairment charge on emission allowances of $160 million.
(e) Includes loss on debt extinguishment of $32 million.

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| (In millions) | | Conventional Power Generation | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Nine months ended September 30, 2012 | Retail[f] | Texas[f] | North-east[f] | South Central | West | Other[f] | Alternative Energy[f] | Corporate[f][g] | Elimination | Total |
| Operating revenues | $4,492 | $1,462 | $ 598 | $653 | $185 | $262 | $114 | $ 11 | $ (1,418 ) | $6,359 |
| Depreciation and amortization | 126 | 343 | 96 | 69 | 8 | 12 | 41 | 8 | — | 703 |
| Equity in earnings of unconsolidated affiliates | — | — | 11 | — | 6 | 8 | 1 | — | — | 26 |
| Income/(loss) before income taxes | 504 | (202 ) | (20 ) | — | 42 | 29 | (22 ) | (516 ) | — | (185 ) |
| Net income/(loss) attributable to NRG Energy, Inc. | $504 | $(202 ) | $ (20 ) | $— | $42 | $25 | $(40 ) | $ (266 ) | $ — | $43 |
| [f] Includes intersegment sales and derivative gains and losses of: | $3 | $1,287 | $51 | $— | $— | $55 | $18 | $4 | | |

[g] Includes loss on debt extinguishment of $41 million.

| (In millions) | | Conventional Power Generation | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Nine months ended September 30, 2011 | Retail[h] | Texas[h][i] | North-east[h] | South Central | West | Other[h] | Alternative Energy[h] | Corporate[h][i] | Elimination | Total |
| Operating revenues | $4,409 | $2,149 | $ 770 | $656 | $122 | $244 | $33 | $ 9 | $ (1,445 ) | $6,947 |
| Depreciation and amortization | 114 | 347 | 89 | 65 | 7 | 11 | 22 | 10 | — | 665 |