

NRG ENERGY, INC.
Form 10-Q
November 04, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended: September 30, 2016

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.)

804 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 No

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 No

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	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company
<input checked="" type="checkbox"/>			<input type="checkbox"/>

(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 No

As of October 31, 2016, there were 315,442,997 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, 2015, and 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 GHG emissions;
- Price mitigation strategies and other market structures employed by ISOs or RTOs that result in a failure to adequately and fairly compensate NRG's generation units;
- NRG's ability to mitigate forced outage risk for units subject to capacity performance requirements in PJM, performance incentives in ISO-NE, and scarcity pricing in ERCOT;
- NRG's ability to borrow 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 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 2016 Senior Credit Facility, and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally;
- GenOn's ability to continue as a going concern;
- Cyber terrorism and inadequate cybersecurity, or the occurrence of a catastrophic loss and the possibility that NRG may not have adequate insurance to cover losses resulting from such hazards or the inability of NRG's insurers to provide agreed upon coverage;
- NRG's ability to develop and build new power generation facilities, including new renewable projects;
- NRG's ability to develop and innovate new products as retail and wholesale markets continue to change and evolve;
- NRG's ability to implement its strategy of finding ways to meet the challenges of climate change, clean air and protecting natural resources while taking advantage of business opportunities;
- NRG's ability to sell assets to NRG Yield, Inc. and to close drop-down transactions;
- NRG's ability to achieve its strategy of regularly returning capital to stockholders;
- NRG's ability to obtain and maintain retail market share;

NRG's ability to successfully evaluate investments and achieve intended financial results in new business and growth initiatives;

NRG's ability to engage in successful mergers and acquisitions activity;

NRG's ability to successfully integrate, realize cost savings and manage any acquired businesses; and

NRG's ability to develop and maintain successful partnering relationships.

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

GLOSSARY OF TERMS

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

2015 Form 10-K	NRG's Annual Report on Form 10-K for the year ended December 31, 2015
2016 Revolving Credit Facility	The Company's \$2.5 billion revolving credit facility, a component of the 2016 Senior Credit Facility. The revolving credit facility consists of \$289 million of Tranche A Revolving Credit Facility, due 2018, and \$2.2 billion of Tranche B Revolving Credit Facility, due 2021.
2016 Senior Credit Facility	NRG's senior secured credit facility, comprised of a \$1.9 billion term loan facility and a \$2.5 billion revolving credit facility, which replaces the Senior Credit Facility.
2016 Term Loan Facility	The Company's \$1.9 billion term loan facility due 2023, a component of the 2016 Senior Credit Facility.
AEP	American Electric Power Company Inc.
ARO	Asset Retirement Obligation
ASC	The FASB Accounting Standards Codification, which the FASB established as the source of authoritative GAAP
ASU	Accounting Standards Updates, which reflect updates to the ASC
Average realized prices	Volume-weighted average power prices, net of average fuel costs and reflecting the impact of settled hedges
BACT	Best Available Control Technology
BETM	Boston Energy Trading and Marketing LLC
BTU	British Thermal Unit
Buffalo Bear	Buffalo Bear, LLC, the operating subsidiary of Tapestry Wind LLC, which owns the Buffalo Bear project
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CDD	Cooling Degree Day
CDFW	California Department of Fish and Wildlife
CDWR	California Department of Water and Resources
CenterPoint	CenterPoint Energy, Inc. and its subsidiaries, on and after August 31, 2002, and Reliant Energy, Incorporated and its subsidiaries prior to August 31, 2002
CERT	Combustion Emissions Reduction Technologies, LLC
CFTC	U.S. Commodity Futures Trading Commission
COD	Commercial Operation Date
ComEd	Commonwealth Edison
Company	NRG Energy, Inc.
CPP	Clean Power Plan
CPS	Combined Pollutant Standard
CPUC	California Public Utilities Commission
CSAPR	Cross-State Air Pollution Rule
CVSR	California Valley Solar Ranch
CWA	Clean Water Act
D.C. Circuit	U.S. Court of Appeals for the District of Columbia Circuit
DGPV Holdco 1	NRG DGPV Holdco 1 LLC
DGPV Holdco 2	NRG DGPV Holdco 2 LLC
Discrete Customers	Customers measured by unit sales of one-time products or services, such as one-time in-home product installation/maintenance, portable solar products and portable battery solutions
Distributed Solar	Solar power projects that primarily sell power produced to customers for usage on site, or are interconnected to sell power into the local distribution grid

DSI	Dry Sorbent Injection with Trona
Economic gross margin	Sum of energy revenue, capacity revenue and other revenue, less cost of fuels and other cost of sales
EGU	Electric Generating Unit
El Segundo Energy Center	NRG West Holdings LLC, the subsidiary of Natural Gas Repowering LLC, which owns the El Segundo Energy Center project
EMAAC	Eastern Mid-Atlantic Area Council
EME	Edison Mission Energy
Energy Plus Holdings	Energy Plus Holdings LLC and Energy Plus Natural Gas LLC
EPA	U.S. Environmental Protection Agency
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
ESCO	Energy Service Company
ESP	Electrostatic Precipitator
ESPP	NRG Energy, Inc. Amended and Restated Employee Stock Purchase Plan
ESPS	Existing Source Performance Standards
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FirstEnergy	FirstEnergy Corp.
FPA	Federal Power Act
FTRs	Financial Transmission Rights
GAAP	Accounting principles generally accepted in the U.S.
GenConn	GenConn Energy LLC
GenOn	GenOn Energy, Inc.
GenOn Americas Generation	GenOn Americas Generation, LLC
GenOn Americas Generation Senior Notes	GenOn Americas Generation's \$695 million outstanding unsecured senior notes consisting of \$366 million of 8.5% senior notes due 2021 and \$329 million of 9.125% senior notes due 2031
GenOn Mid-Atlantic	GenOn Mid-Atlantic, LLC and, except where the context indicates otherwise, its subsidiaries, which include the coal generation units at two generating facilities under operating leases
GenOn Senior Notes	GenOn's \$1.8 billion outstanding unsecured senior notes consisting of \$691 million of 7.875% senior notes due 2017, \$650 million of 9.5% senior notes due 2018, and \$489 million of 9.875% senior notes due 2020
GHG	Greenhouse Gases
GWh	Gigawatt Hour
HAPs	Hazardous Air Pollutants
HDD	Heating Degree Day
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
HLBV	Hypothetical Liquidation at Book Value
HLM	High Lonesome Mesa, LLC
IASB	Independent Accounting Standards Board
IFRS	International Financial Reporting Standards

IL CPS
ILU
ISO

Illinois Combined Pollutant Standard
Illinois Union Insurance Company
Independent System Operator

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ISO-NE	ISO New England Inc.
January 2015 Drop Down Assets	The Laredo Ridge, Tapestry and Walnut Creek projects, which were sold to NRG Yield, Inc. on January 2, 2015
KPPH	1,000 Pounds Per Hour
kWh	Kilowatt-hours
Laredo Ridge	Laredo Ridge Wind, LLC, the operating subsidiary of Mission Wind Laredo, LLC, which owns the Laredo Ridge project
LIBOR	London Inter-Bank Offered Rate
LSE	Load Serving Entity
LTIPs	Collectively, the NRG Long-Term Incentive Plan and the NRG GenOn Long-Term Incentive Plan
MAAC	Mid-Atlantic Area Council
Marsh Landing	NRG Marsh Landing, LLC (formerly known as GenOn Marsh Landing, LLC)
Mass Market	Residential and small commercial customers
MATS	Mercury and Air Toxics Standards promulgated by the EPA
MDE	Maryland Department of the Environment
Midwest Generation	Midwest Generation, LLC
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British Thermal Units
MW	Megawatts
MWG	Midwest Generation, LLC
MWh	Saleable megawatt hours, net of internal/parasitic load megawatt-hours
MWt	Megawatts Thermal Equivalent
NAAQS	National Ambient Air Quality Standards
NEPOOL	New England Power Pool
NERC	North American Electric Reliability Corporation
Net Exposure	Counterparty credit exposure to NRG, net of collateral
Net Generation	The net amount of electricity produced, expressed in kWhs or MWhs, that is the total amount of electricity generated (gross) minus the amount of electricity used during generation
NOL	Net Operating Loss
NO _x	Nitrogen Oxides
NPDES	National Pollutant Discharge Elimination System
NPNS	Normal Purchase Normal Sale
NRC	U.S. Nuclear Regulatory Commission
NRG	NRG Energy, Inc.
NRG Wind TE Holdco	NRG Wind TE Holdco LLC
NRG Yield	Reporting segment that includes the projects held by NRG Yield, Inc.
NRG Yield 2019 Convertible Notes	\$345 million aggregate principal amount of 3.50% Convertible Senior Notes due 2019 issued by NRG Yield, Inc.
NRG Yield 2020 Convertible Notes	\$287.5 million aggregate principal amount of 3.25% Convertible Notes due 2020 issued by NRG Yield, Inc.
NRG Yield, Inc.	NRG Yield, Inc., the owner of 53.3% of the economic interests of NRG Yield LLC with a controlling interest, and issuer of publicly held shares of Class A and Class C common stock
NRG Yield Operating 2024 Senior Notes	NRG Yield Operating LLC's \$500 million of 5.375% unsecured senior notes due 2024
NRG Yield Operating 2026 Senior Notes	NRG Yield Operating LLC's \$350 million of 5.00% unsecured senior notes due 2026

NSR	New Source Review
NSPS	New Source Performance Standards
Nuclear Decommissioning Trust Fund	NRG's nuclear decommissioning trust fund assets, which are for the Company's portion of the decommissioning of the STP, units 1 & 2

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NYAG	State of New York Office of Attorney General
NYISO	New York Independent System Operator
NYSERDA	New York State Energy Research and Development Authority
NYSPSC	New York State Public Service Commission
OCI	Other Comprehensive Income/(Loss)
Peaking	Units expected to satisfy demand requirements during the periods of greatest or peak load on the system
PG&E	Pacific Gas and Electric Company
Pinnacle	Pinnacle Wind, LLC, the operating subsidiary of Tapestry Wind LLC, which owns the Pinnacle project
PJM	PJM Interconnection, LLC
PM	Particulate Matter
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCO	Public Utility Commission of Ohio
PUCT	Public Utility Commission of Texas
RAPA	Resource Adequacy Purchase Agreement
RCRA	Resource Conservation and Recovery Act of 1976
REMA	NRG REMA LLC, which leases a 100% interest in the Shawville generating facility and 16.7% and 16.5% interests in the Keystone and Conemaugh generating facilities, respectively
Reliant Energy	Reliant Energy Retail Services, LLC
Repowering	Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, generally to achieve a substantial emissions reduction, increase facility capacity, and improve system efficiency
RESA	Retail Electric Supply Association
Retail Mass	Reporting segment that includes NRG's residential and small commercial businesses which go to market as Reliant, NRG and other brands owned by NRG
Retail Mass Recurring Customers	Customers that subscribe to one or more recurring services, such as electricity, natural gas and protection products, the majority of which are retail electricity customers in Texas and the Northeast
Revolving Credit Facility	Prior to June 30, 2016, the Company's \$2.5 billion revolving credit facility due 2018, a component of the Senior Credit Facility. On June 30, 2016, the Company replaced the Senior Credit Facility, including the Revolving Credit Facility, with the 2016 Senior Credit Facility.
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run
RPV Holdco	NRG RPV Holdco 1 LLC
RTO	Regional Transmission Organization
SCE	Southern California Edison
SDG&E	San Diego Gas & Electric Company
SEC	U.S. Securities and Exchange Commission
Securities Act	The Securities Act of 1933, as amended
Senior Credit Facility	Prior to June 30, 2016, the Company's senior secured facility, comprised of the Term Loan Facility and the Revolving Credit Facility. On June 30, 2016, the Company replaced the Senior Credit Facility with the 2016 Senior Credit Facility.
Senior Notes	As of September 30, 2016, the Company's \$5.8 billion outstanding unsecured senior notes, consisting of \$584 million of 7.625% senior notes due 2018, \$399 million of 7.875% senior notes due 2021, \$992 million of 6.25% senior notes due 2022, \$869 million of 6.625% senior notes due 2023, \$734 million of 6.25% senior notes due 2024, \$1.0 billion of 7.25% senior notes due 2026 and \$1.25 billion of 6.625% senior notes due 2027.

Seward
Shelby

The Seward Power Generating Station, a 525 MW coal-fired facility in Pennsylvania
The Shelby County Generating Station, a 352 MW natural gas-fired facility in Illinois

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SO ₂	Sulfur Dioxide
STP	South Texas Project — nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
S&P	Standard & Poor's
Taloga	Taloga Wind, LLC, the operating subsidiary of Tapestry Wind LLC, which owns the Taloga project
TCPA	Telephone Consumer Protection Act
Term Loan Facility	Prior to June 30, 2016, the Company's \$2.0 billion term loan facility due 2018, a component of the Senior Credit Facility. On June 30, 2016, the Company replaced its Senior Credit Facility, including the Term Loan Facility, with the 2016 Senior Credit Facility.
TSA	Transportation Services Agreement
TWCC	Texas Westmoreland Coal Co.
UPMC	University of Pittsburgh Medical Center
U.S.	United States of America
U.S. DOE	U.S. Department of Energy
Utility Scale Solar	Solar power projects, typically 20 MW or greater in size (on an alternating current basis), that are interconnected into the transmission or distribution grid to sell power at a wholesale level
VaR	Value at Risk
VIE	Variable Interest Entity
Walnut Creek	NRG Walnut Creek, LLC, the operating subsidiary of WCEP Holdings, LLC, which owns the Walnut Creek project

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)	2016	2015	2016	2015
Operating Revenues				
Total operating revenues	\$3,952	\$4,434	\$9,819	\$11,663
Operating Costs and Expenses				
Cost of operations	2,793	3,042	6,738	8,551
Depreciation and amortization	357	382	979	1,173
Impairment losses	8	263	123	263
Selling, general and administrative	282	327	802	878
Acquisition-related transaction and integration costs	—	3	7	16
Development activity expenses	23	38	67	109
Total operating costs and expenses	3,463	4,055	8,716	10,990
Gain on sale of assets and postretirement benefits curtailment, net	266	—	215	14
Operating Income	755	379	1,318	687
Other Income/(Expense)				
Equity in earnings of unconsolidated affiliates	16	24	13	29
Impairment loss on investment	(8	) —	(147) —
Other income, net	9	4	35	27
Loss on debt extinguishment, net	(50	) (2	) (119	) (9
Interest expense	(280	) (291	) (841	) (855
Total other expense	(313	) (265	) (1,059	) (808
Income/(Loss) Before Income Taxes	442	114	259	(121
Income tax expense/(benefit)	49	47	95	(43
Net Income/(Loss)	393	67	164	(78
Less: Net (loss)/income attributable to noncontrolling interest and redeemable noncontrolling interests	(9	) 1	(49	) (10
Net Income/(Loss) Attributable to NRG Energy, Inc.	402	66	213	(68
Gain on redemption, net of dividends for preferred shares	—	5	(73	) 15
Income/(Loss) Available for Common Stockholders	\$402	\$61	\$286	\$(83
Earnings/(Loss) per Share Attributable to NRG Energy, Inc. Common Stockholders				
Weighted average number of common shares outstanding — basic	316	331	315	334
Earnings/(Loss) per Weighted Average Common Share — Basic	\$1.27	\$0.18	\$0.91	\$(0.25
Weighted average number of common shares outstanding — diluted	317	332	316	334
Earnings/(Loss) per Weighted Average Common Share — Diluted	\$1.27	\$0.18	\$0.91	\$(0.25
Dividends Per Common Share	\$0.03	\$0.15	\$0.21	\$0.44

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In millions)			
Net Income/(Loss)	\$393	\$67	\$164	\$(78)
Other Comprehensive Income/(Loss), net of tax				
Unrealized gains/(losses) on derivatives, net of income tax (benefit)/expense of \$(1), \$(12), \$1 and \$(6)	27	(6)	(8)	(2)
Foreign currency translation adjustments, net of income tax benefit of \$0 , \$5, \$0 and \$6	3	(8)	6	(10)
Available-for-sale securities, net of income tax expense of \$0, \$6, \$0 and \$1	—	(7)	1	(11)
Defined benefit plans, net of tax expense of \$0, \$2, \$0 and \$6	31	3	32	9
Other comprehensive income/(loss)	61	(18)	31	(14)
Comprehensive Income/(Loss)	454	49	195	(92)
Less: Comprehensive loss attributable to noncontrolling interest and redeemable noncontrolling interests	(2)	(17)	(70)	(34)
Comprehensive Income/(Loss) Attributable to NRG Energy, Inc.	456	66	265	(58)
Gain on redemption, net of dividends for preferred shares	—	5	(73)	15
Comprehensive Income/(Loss) Available for Common Stockholders	\$456	\$61	\$338	\$(73)
See accompanying notes to condensed consolidated financial statements.				

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016	December 31, 2015
(In millions, except shares)		
	(unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,435	\$ 1,518
Funds deposited by counterparties	16	106
Restricted cash	480	414
Accounts receivable, net	1,362	1,157
Inventory	1,017	1,252
Derivative instruments	964	1,915
Cash collateral paid in support of energy risk management activities	337	568
Renewable energy grant receivable, net	34	13
Current assets held-for-sale	—	6
Prepayments and other current assets	369	442
Total current assets	7,014	7,391
Property, plant and equipment, net	18,203	18,732
Other Assets		
Equity investments in affiliates	900	1,045
Notes receivable, less current portion	21	53
Goodwill	999	999
Intangible assets, net	2,106	2,310
Nuclear decommissioning trust fund	605	561
Derivative instruments	256	305
Deferred income taxes	189	167
Non-current assets held-for-sale	—	105
Other non-current assets	1,198	1,214
Total other assets	6,274	6,759
Total Assets	\$ 31,491	\$ 32,882
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	\$ 1,221	\$ 481
Accounts payable	945	869
Derivative instruments	969	1,721
Cash collateral received in support of energy risk management activities	16	106
Current liabilities held-for-sale	—	2
Accrued expenses and other current liabilities	1,150	1,196
Total current liabilities	4,301	4,375
Other Liabilities		
Long-term debt and capital leases	18,018	18,983
Nuclear decommissioning reserve	284	326
Nuclear decommissioning trust liability	309	283
Deferred income taxes	47	19
Derivative instruments	475	493
Out-of-market contracts, net	1,065	1,146
Non-current liabilities held-for-sale	—	4

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Other non-current liabilities	1,480	1,488
Total non-current liabilities	21,678	22,742
Total Liabilities	25,979	27,117
2.822% convertible perpetual preferred stock	—	302
Redeemable noncontrolling interest in subsidiaries	19	29
Commitments and Contingencies		
Stockholders' Equity		
Common stock	4	4
Additional paid-in capital	8,370	8,296
Retained deficit	(2,791)	(3,007)
Less treasury stock, at cost — 102,140,814 and 102,749,908 shares, respectively	(2,399)	(2,413)
Accumulated other comprehensive loss	(142)	(173)
Noncontrolling interest	2,451	2,727
Total Stockholders' Equity	5,493	5,434
Total Liabilities and Stockholders' Equity	\$ 31,491	\$ 32,882

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2016	2015
	(In millions)	
Cash Flows from Operating Activities		
Net Income/(Loss)	\$164	\$(78)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Distributions and equity in earnings of unconsolidated affiliates	44	28
Depreciation and amortization	979	1,173
Provision for bad debts	36	49
Amortization of nuclear fuel	39	36
Amortization of financing costs and debt discount/premiums	3	(9)
Adjustment to loss on debt extinguishment	21	9
Amortization of intangibles and out-of-market contracts	73	68
Amortization of unearned equity compensation	23	37
Impairment losses	270	263
Changes in deferred income taxes and liability for uncertain tax benefits	29	(72)
Changes in nuclear decommissioning trust liability	24	1
Changes in derivative instruments	82	180
Changes in collateral deposits supporting energy risk management activities	231	(180)
Proceeds from sale of emission allowances	47	(6)
Gain on sale of assets and equity method investments, net and postretirement benefits curtailment	(224)	(14)
Cash used by changes in other working capital	(108)	(93)
Net Cash Provided by Operating Activities	1,733	1,392
Cash Flows from Investing Activities		
Acquisitions of businesses, net of cash acquired	(18)	(31)
Capital expenditures	(898)	(889)
Increase in restricted cash, net	(30)	(41)
(Increase)/decrease in restricted cash to support equity requirements for U.S. DOE funded projects	(36)	1
Decrease in notes receivable	2	10
Purchases of emission allowances	(32)	(40)
Proceeds from sale of emission allowances	47	45
Investments in nuclear decommissioning trust fund securities	(378)	(500)
Proceeds from the sale of nuclear decommissioning trust fund securities	354	499
Proceeds from renewable energy grants and state rebates	11	62
Proceeds from sale of assets, net of cash disposed of	636	1
Investments in unconsolidated affiliates	(23)	(357)
Other	44	8
Net Cash Used by Investing Activities	(321)	(1,232)
Cash Flows from Financing Activities		
Payment of dividends to common and preferred stockholders	(66)	(152)
Payment for treasury stock	—	(353)
Payment for preferred shares	(226)	—
Net receipts from settlement of acquired derivatives that include financing elements	129	138

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Proceeds from issuance of long-term debt	5,237	679
Payments for short and long-term debt	(5,357)	(954)
Distributions from, net of contributions to, noncontrolling interest in subsidiaries	(127)	651
Proceeds from issuance of common stock	1	1
Payment of debt issuance costs	(70)	(14)
Other - contingent consideration	(10)	(22)
Net Cash Used by Financing Activities	(489)	(26)
Effect of exchange rate changes on cash and cash equivalents	(6)	15
Net Increase in Cash and Cash Equivalents	917	149
Cash and Cash Equivalents at Beginning of Period	1,518	2,116
Cash and Cash Equivalents at End of Period	\$2,435	\$2,265
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 competitive power company that aims to create a sustainable energy future by producing, selling and delivering energy and energy products and services in major competitive power markets in the U.S. in a manner that delivers value to all of NRG's stakeholders. NRG has one of the nation's largest and most diverse competitive generation portfolios balanced with a leading retail electricity platform. The Company owns and operates approximately 46,000 MW of generation; engages in the trading of wholesale energy, capacity and related products; transacts in and trades fuel and transportation services; and directly sells energy, services, and innovative, sustainable products and services to retail customers under the names "NRG," "Reliant" and other retail brand names owned by NRG.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the SEC's regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to the consolidated financial statements in the Company's 2015 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, 2016, and the results of operations, comprehensive income/(loss) and cash flows for the three and nine months ended September 30, 2016 and 2015.

Use of Estimates

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

Reclassifications

Certain prior year amounts have been reclassified for comparative purposes. The reclassifications did not affect results from operations, net assets or cash flows.

The Company decreased accumulated depreciation and facilities and equipment within total property, plant and equipment by approximately \$1 billion respectively, to adjust amounts previously presented as of December 31, 2015. This adjustment had no impact on net assets at December 31, 2015. Accordingly, the Company does not consider the adjustment to be material to the consolidated balance sheet. Consolidated operating income and net income for the three months and nine months ended September 30, 2016 were not impacted by the adjustment.

Note 2 — Summary of Significant Accounting Policies

Other Balance Sheet Information

The following table presents the allowance for doubtful accounts included in accounts receivable, net; accumulated depreciation included in property plant and equipment, net; accumulated amortization included in intangible assets, net and accumulated amortization included in out-of-market contracts, net.

	September 30, 2016	December 31, 2015
	(In millions)	
Accounts receivable allowance for doubtful accounts	\$ 28	\$ 26
Property plant and equipment accumulated depreciation	6,425,761	
Intangible assets accumulated amortization	1,729,590	
Out-of-market contracts accumulated amortization	740	639

Other Cash Flow Information

NRG's investing activities exclude capital expenditures of \$112 million which were accrued and unpaid at September 30, 2016.

Noncontrolling Interest

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

	(In millions)
Balance as of December 31, 2015	\$ 2,727
Distributions to noncontrolling interest	(135)
Dividends paid to NRG Yield, Inc. public shareholders	(68)
Comprehensive loss attributable to noncontrolling interest	(45)
Sale of assets to NRG Yield, Inc.	(37)
Redemption of noncontrolling interest	(7)
Contributions from noncontrolling interest	16
Balance as of September 30, 2016	\$ 2,451

Redeemable Noncontrolling Interest

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

	(In millions)
Balance as of December 31, 2015	\$ 29
Distributions to redeemable noncontrolling interest	(46)
Contributions from redeemable noncontrolling interest	61
Comprehensive loss attributable to redeemable noncontrolling interest	(25)
Balance as of September 30, 2016	\$ 19

Recent Accounting Developments

ASU 2016-16 — In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory, or ASU No. 2016-16. The amendments of ASU No. 2016-16 were issued to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party which has resulted in diversity in practice and increased complexity within financial reporting. The amendments of ASU No. 2016-16 would require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and do not require new disclosure requirements. The amendments of ASU No. 2016-16 are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted and the adoption of ASU No. 2016-16 should be applied on a modified retrospective basis through a cumulative-effect

adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of the standard on the Company's results of operations, cash flows and financial position.

ASU 2016-15 — In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments, or ASU No. 2016-15. The amendments of ASU No. 2016-15 were issued to address eight specific cash flow issues for which stakeholders have indicated to the FASB that a diversity in practice existed in how entities were presenting and classifying these items in the statement of cash flows. The issues addressed by ASU No. 2016-15 include but are not limited to the classification of debt prepayment and debt extinguishment costs, payments made for contingent consideration for a business combination, proceeds from the settlement of insurance proceeds, distributions received from equity method investees and separately identifiable cash flows and the application of the predominance principle. The amendments of ASU No. 2016-15 are effective for public entities for fiscal years beginning after December 15, 2017 and interim periods in those fiscal years. Early adoption is permitted, including adoption in an interim fiscal period with all amendments adopted in the same period. The adoption of ASU No. 2016-15 is required to be applied retrospectively. The Company is currently evaluating the impact of the standard on the Company's statement of cash flows.

ASU 2016-09 — In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718), or ASU No. 2016-09. The amendments of ASU No. 2016-09 were issued as part of the FASB's Simplification Initiative focused on improving areas of GAAP for which cost and complexity may be reduced while maintaining or improving the usefulness of information disclosed within the financial statements. The amendments focused on simplification specifically with regard to share-based payment transactions, including income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The guidance in ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company does not expect the standard to have a material impact on its results of operations, cash flows and financial position.

ASU 2016-07 — In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), or ASU No. 2016-07. The amendments of ASU No. 2016-07 eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting with no retroactive adjustment to the investment. In addition, ASU No. 2016-07 requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The guidance in ASU No. 2016-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The adoption of ASU No. 2016-07 is required to be applied prospectively and early adoption is permitted. The Company does not expect the standard to have a material impact on its results of operations, cash flows and financial position.

ASU 2016-02 — In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), or ASU No. 2016-02. The amendments of ASU No. 2016-02 complete the joint effort between the FASB and the International Accounting Standards Board, or IASB, to develop a common leasing standard for GAAP and International Financial Reporting Standards, or IFRS, with the objective to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and to improve financial reporting. The guidance in ASU No. 2016-02 provides that a lessee that may have previously accounted for a lease as an operating lease under current GAAP should recognize the assets and liabilities that arise from a lease on the balance sheet. In addition, ASU No. 2016-02 expands the required quantitative and qualitative disclosures with regards to lease arrangements. The guidance in ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those annual periods. The adoption of ASU No. 2016-02 is required to be applied using a modified retrospective approach for the earliest period presented and early adoption is permitted. The Company is currently working through an adoption plan which includes the evaluation of lease contracts compared to the new standard and evaluating the impact of ASU No. 2016-02 on the Company's results of operations, cash flows and financial position.

ASU 2016-01 — In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU No. 2016-01. The amendments of ASU No. 2016-01 eliminate available-for-sale classification of equity investments and require that equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be generally measured at fair value with changes in fair value recognized in net income. Further, the amendments require that financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. The guidance in ASU No. 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. The Company is currently evaluating the impact of the standard on the Company's results of operations, cash flows and financial position.

ASU 2015-16 — In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, or ASU No. 2015-16. The amendments of ASU No. 2015-16 require that an acquirer recognize measurement period adjustments to the provisional amounts recognized in a business combination in the reporting period during which the adjustments are determined. Additionally, the amendments of ASU No. 2015-16 require the acquirer to record in the same period's financial statements the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the measurement period adjustment, calculated as if the accounting had been completed at the acquisition date as well as disclosing either on the face of the income statement or in the notes the portion of the amount recorded in current period earnings that would have been recorded in previous reporting periods. The guidance in ASU No. 2015-16 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments should be applied prospectively. The Company adopted ASU No. 2015-16 for the year ended December 31, 2016, and the adoption did not have a material impact on the Company's results of operations, cash flows and financial position.

ASU 2014-09 — In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU No. 2014-09. The amendments of ASU No. 2014-09 complete the joint effort between the FASB and the IASB, to develop a common revenue standard for GAAP and IFRS, and to improve financial reporting. In addition to ASU No. 2014-09, the FASB has issued additional guidance which provides further clarification on Topic 606 including ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12. The guidance under Topic 606 provides that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for the goods or services provided and establishes a four step process to be applied by an entity in evaluating its contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, which formally deferred the effective date by one year to make the guidance of ASU No. 2014-09 effective for annual reporting periods beginning after December 15, 2017, including interim periods therein. Early adoption is permitted, but not prior to the original effective date, which was for annual reporting periods beginning after December 15, 2016. The Company is working through an adoption plan which includes the evaluation of revenue contracts compared to the new standard and evaluating the impact of Topic 606 on the

Company's results of operations, cash flows and financial position.

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Note 3 — Business Acquisitions and Dispositions

The Company has completed the following business acquisitions and dispositions that are material to the Company's financial statements:

Acquisitions

2015 Acquisition of Desert Sunlight

On June 29, 2015, NRG Yield, Inc., through its subsidiary NRG Yield Operating LLC, acquired 25% of the membership interest in Desert Sunlight Investment Holdings, LLC, which owns two solar photovoltaic facilities that total 550 MW located in Desert Center, California from EFS Desert Sun, LLC, an affiliate of GE Energy Financial Services, for a purchase price of \$285 million. The Company accounts for its 25% investment as an equity method investment.

SunEdison Utility-Scale Solar and Wind Acquisition

On September 15, 2016, the Company entered into an agreement with SunEdison to acquire (i) an equity interest in a tax-equity portfolio of 530 MW mechanically-complete solar assets of which NRG's net interest based on cash to be distributed will be 265 MW, and an additional 937 MW of solar and wind assets in development, (ii) a 154 MW construction-ready solar facility in Texas and (iii) a 182 MW portfolio of construction-ready and development solar assets in Hawaii. The acquisition of the portfolio of solar assets in Hawaii was completed on October 7, 2016 for upfront cash consideration of \$2 million and the acquisition of the 530 MW tax equity portfolio and 937 MW development assets was completed on November 2, 2016 for upfront cash consideration of \$111 million. The Company expects to pay total upfront cash consideration for the three acquisitions of \$129 million, with an estimated \$59 million in additional payments contingent upon future development milestones.

SunEdison Solar Distributed Generation Acquisition

On October 3, 2016, the Company acquired a 29 MW portfolio of mechanically-complete and construction-ready distributed generation solar assets from SunEdison for cash consideration of approximately \$68 million, subject to post closing adjustments. The Company expects to sell these assets into a tax-equity financed portfolio within the DGPV Holdco partnership between NRG and NRG Yield, Inc.

Dispositions

Potrero Disposition

On September 26, 2016, NRG Potrero LLC, or Potrero, an indirect wholly owned subsidiary of GenOn Americas Generation, completed the sale of real property at the Potrero generating station located in San Francisco, CA to California Barrel Company, LLC for total consideration of \$86 million, consisting of \$74 million of cash received, which is net of \$8 million of closing costs and \$4 million to be held in escrow in order to cover post closing obligations. This transaction resulted in a gain on sale of \$74 million.

Disposition of Majority Interest in EVgo

On June 17, 2016, the Company completed the sale of a majority interest in its EVgo business to Vision Ridge Partners for total consideration of approximately \$39 million, including \$17 million in cash received, which is net of \$2.5 million in working capital adjustments, \$15 million contributed as capital to the EVgo business and \$7 million of future contributions by Vision Ridge Partners, all of which were determined based on forecasted cash requirements to operate the business in future periods. In addition, the Company has future earnout potential of up to \$70 million based on future profitability targets. NRG retained its original financial obligation of \$102.5 million under its agreement with the CPUC whereby EVgo will build at least 200 public fast charging Freedom Station sites and perform the associated work to prepare 10,000 commercial and multi-family parking spaces for electric vehicle charging in California. NRG has contracted with EVgo to continue to build the remaining required Freedom Stations and commercial and multi-family parking spaces for electric vehicle charging required under this obligation and EVgo will be directly reimbursed by NRG for the costs. As a result of the sale, the Company recorded a loss on sale of \$78 million during the second quarter of 2016, which reflects the loss on the sale of the equity interest of \$27 million and the accrual of NRG's remaining obligation under its agreement with the CPUC of \$56 million, of which \$50 million remains as of September 30, 2016. At September 30, 2016, the Company's remaining 35% interest in EVgo of \$10 million was accounted for as an equity-method investment.

Rockford Disposition

On May 12, 2016, the Company entered into an agreement with RA Generation, LLC to sell 100% of its interests in the Rockford I and Rockford II generating stations, or Rockford, for cash consideration of \$55 million, subject to adjustments for working capital and the results of the PJM 2019/2020 base residual auction. Rockford is a 450 MW natural gas facility located in Rockford, Illinois. The transaction triggered an indicator of impairment as the sales price was less than the carrying amount of the assets and as a result, the assets were considered to be impaired. The Company measured the impairment loss as the difference between the carrying amount of the assets and the agreed-upon sales price. The Company recorded an impairment loss of \$17 million during the quarter ended June 30, 2016 to reduce the carrying amount of the assets held for sale to the fair market value. On July 12, 2016, the Company completed the sale of Rockford for cash proceeds of \$56 million, including \$1 million in adjustments for the PJM base residual auction results. For further discussion on this impairment, refer to Note 7, Impairments.

Aurora Disposition

On May 12, 2016, GenOn entered into an agreement with RA Generation, LLC to sell the Aurora Generating Station, or Aurora, for cash consideration of \$365 million, subject to adjustments for working capital and the results of the PJM 2019/2020 base residual auction. Aurora is a 878 MW natural gas facility located in Aurora, Illinois. On July 12, 2016, GenOn completed the sale of Aurora for cash proceeds of \$369 million, including \$4 million in adjustments for the PJM base residual auction results and estimated working capital, which is subject to further adjustment. The Company recorded a gain of approximately \$188 million recognized within the Company's consolidated results of operations during the quarter ended September 30, 2016.

Seward Disposition

On November 24, 2015, GenOn entered into an agreement with Seward Generation, LLC and an affiliate of Robindale Energy Services, Inc. to sell the Seward Generating Station, a 525 MW coal-fired facility in Pennsylvania, for cash consideration of \$75 million. At December 31, 2015, GenOn had classified on its balance sheet the assets and liabilities of Seward as held for sale. On February 2, 2016, GenOn completed the sale of Seward and received gross cash proceeds of \$75 million, excluding \$3 million cash on hand transferred to the buyer. GenOn will also receive \$5 million in deferred cash consideration in five \$1 million annual installments and up to \$2.5 million in payments contingent upon certain environmental requirements being imposed by August 2017. In addition, Robindale committed to future inventory purchases from GenOn of \$13 million through 2019.

Shelby Disposition

On November 9, 2015, GenOn entered into an agreement with an affiliate of Rockland Power Partners II, LP to sell the Shelby Generating Station, a 352 MW natural gas-fired facility located in Illinois for cash consideration of \$46 million. At December 31, 2015, GenOn had classified on its balance sheet the assets and liabilities of Shelby as held for sale. On March 1, 2016, GenOn completed the sale of Shelby for cash proceeds of \$46 million, which resulted in a gain of \$29 million recognized during the first quarter of 2016. In addition, GenOn retained \$10 million related to future revenue rights retained as part of the agreement of which \$7 million had been received as of September 30, 2016.

Transfer of Assets under Common Control

On September 1, 2016, the Company completed the sale of its remaining 51.05% interest in the CVSR project to NRG Yield, Inc. for total cash consideration of \$78.5 million, plus an immaterial working capital adjustment. In addition, NRG Yield, Inc. assumed non-recourse project level debt of \$496 million.

On November 3, 2015, the Company sold 75% of the Class B interests of NRG Wind TE Holdco, which owns a portfolio of 12 wind facilities totaling 814 net MW, to NRG Yield, Inc. NRG Yield, Inc. paid total cash consideration of \$209 million, subject to working capital adjustments. NRG Yield, Inc. is responsible for its pro-rata share of non-recourse project debt of \$193 million and noncontrolling interest associated with a tax equity structure of \$159 million (as of the acquisition date). In February 2016, the Company made a final working capital payment of \$2 million to NRG Yield, Inc. reducing total cash consideration to \$207 million.

Note 4 — Fair Value of Financial Instruments

This footnote should be read in conjunction with the complete description under Note 4, Fair Value of Financial Instruments, to the Company's 2015 Form 10-K.

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

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

	As of September 30, 2016	As of December 31, 2015
	Carrying Amount	Fair Amount
	(In millions)	
Assets:		
Notes receivable ^(a)	\$50 \$ 50	\$ 73 \$ 73

Liabilities:

Long-term debt, including current portion ^(b) 19,411,888 19,621,263

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

(b) Excludes deferred financing costs, which are recorded as a reduction to long-term debt on the Company's consolidated balance sheets.

The fair value of the Company's publicly-traded long-term debt is based on quoted market prices and is classified as Level 2 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. The following table presents the level within the fair value hierarchy for long-term debt, including current portion as of September 30, 2016 and December 31, 2015:

	As of September 30, 2016	Level 3	As of December 31, 2015	Level 3
	Level 2	Level 3	Level 2	Level 3
	(In millions)			
Long-term debt, including current portion	\$11,767	\$7,121	\$11,028	\$7,235

Recurring Fair Value Measurements

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

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

(In millions)	As of September 30, 2016			
	Fair Value			Total
	Level 1	Level 2	Level 3	
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities	\$—	\$—	\$17	\$17
Available-for-sale securities	10	—	—	10
Other ^(a)	10	—	—	10
Nuclear trust fund investments:				
Cash and cash equivalents	24	—	—	24
U.S. government and federal agency obligations	51	1	—	52
Federal agency mortgage-backed securities	—	68	—	68
Commercial mortgage-backed securities	—	17	—	17
Corporate debt securities	—	87	—	87
Equity securities	301	—	54	355
Foreign government fixed income securities	—	2	—	2
Other trust fund investments:				
U.S. government and federal agency obligations	1	—	—	1
Derivative assets:				
Commodity contracts	308	798	107	1,213
Interest rate contracts	—	7	—	7
Total assets	\$705	\$980	\$178	\$1,863
Derivative liabilities:				
Commodity contracts	375	773	133	1,281
Interest rate contracts	—	163	—	163
Total liabilities	\$375	\$936	\$133	\$1,444

(a) Consists primarily of mutual funds held in a Rabbi Trust for non-qualified deferred compensation plans for certain former employees.

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(In millions)	As of December 31, 2015			Total
	Fair Value			
	Level 1	Level 2	Level 3	
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities	\$—	\$—	\$17	\$17
Available-for-sale securities	9	—	—	9
Other ^(a)	14	—	—	14
Nuclear trust fund investments:				
Cash and cash equivalents	6	—	—	6
U.S. government and federal agency obligations	54	1	—	55
Federal agency mortgage-backed securities	—	59	—	59
Commercial mortgage-backed securities	—	25	—	25
Corporate debt securities	—	81	—	81
Equity securities	280	—	54	334
Foreign government fixed income securities	—	1	—	1
Other trust fund investments:				
U.S. government and federal agency obligations	1	—	—	1
Derivative assets:				
Commodity contracts	622	1,449	149	2,220
Total assets	\$986	\$1,616	\$220	\$2,822
Derivative liabilities:				
Commodity contracts	868	1,036	182	2,086
Interest rate contracts	—	128	—	128
Total liabilities	\$868	\$1,164	\$182	\$2,214

(a) Primarily consists of mutual funds held in rabbi trusts for non-qualified deferred compensation plans for certain former employees and a total return swap that does not meet the definition of a derivative.

There were no transfers during the three and nine months ended September 30, 2016, and 2015 between Levels 1 and 2. The following tables reconcile, for the three and nine months ended September 30, 2016, and 2015, the beginning and ending balances for financial instruments that are recognized at fair value in the condensed consolidated financial statements, at least annually, using significant unobservable inputs:

(In millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)							
	Three months ended September 30, 2016				Nine months ended September 30, 2016			
	Debt Securities	Trust Fund Investments	Derivatives	Total	Debt Securities	Trust Fund Investments	Derivatives	Total
Beginning balance	\$16	\$ 51	\$ 7	\$74	\$17	\$ 54	\$ (33)	\$38
Total gains/(losses) — realized/unrealized:								
Included in earnings	—	—	2	2	—	—	9	9
Included in OCI	1	—	—	1	—	—	—	—
Included in nuclear decommissioning obligation	—	3	—	3	—	(1)	—	(1)
Purchases	—	—	(26)	(26)	—	1	3	4
Transfers into Level 3 ^(b)	—	—	(12)	(12)	—	—	(5)	(5)
Transfers out of Level 3 ^(b)	—	—	3	3	—	—	—	—
Ending balance as of September 30, 2016	\$17	\$ 54	\$ (26)	\$45	\$17	\$ 54	\$ (26)	\$45
	\$—	\$ —	\$ 1	\$1	\$—	\$ —	\$ (14)	\$(14)

Gains/(losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held as of September 30, 2016

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

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

(In millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Three months ended September 30, 2015					Nine months ended September 30, 2015				
	Debt Securities	Other Investments	Trust Fund Investments	Derivatives	Total	Debt Securities	Other Investments	Trust Fund Investments	Derivatives	Total
Beginning balance	\$18	\$ —	\$ 55	\$ 49	\$122	\$18	\$11	\$ 52	\$ 80	\$161
Total losses — realized/unrealized:										
Included in earnings	—	—	—	(17)	(17)	—	(11)	—	(95)	(106)
Included in nuclear decommissioning obligations	—	—	(6)	—	(6)	—	—	(4)	—	(4)
Purchases	—	—	—	9	9	—	—	1	44	45
Transfers into Level 3 ^(b)	—	—	—	(10)	(10)	—	—	—	1	1
Transfers out of Level 3 ^(b)	—	—	—	2	2	—	—	—	3	3
Ending balance as of September 30, 2015	\$18	\$ —	\$ 49	\$ 33	\$100	\$18	\$ —	\$ 49	\$ 33	\$100
Losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held as of September 30, 2015	\$ —	\$ —	\$ —	\$ (9)	\$ (9)	\$ —	\$ —	\$ —	\$ (37)	\$ (37)

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

(b) Transfers into/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.

Derivative Fair Value Measurements

A portion of NRG's contracts are exchange-traded contracts with readily available quoted market prices. A majority of NRG's contracts are non-exchange-traded contracts valued using prices provided by external sources, primarily price quotations available through brokers or over-the-counter and on-line exchanges. The remainder of the assets and liabilities represent contracts for which external sources or observable market quotes are not available for the whole term or for certain delivery months or the contracts are retail and load following power contracts. These contracts are valued using various valuation techniques including but not limited to internal models that apply fundamental analysis of the market and corroboration with similar markets. As of September 30, 2016, contracts valued with prices provided by models and other valuation techniques make up 9% of the total derivative assets and 9% of the total derivative liabilities.

NRG's significant positions classified as Level 3 include physical and financial power and physical coal executed in illiquid markets as well as financial transmission rights, or FTRs. The significant unobservable inputs used in developing fair value include illiquid power and coal location pricing which is derived as a basis to liquid locations. The basis spread is based on observable market data when available or derived from historic prices and forward market prices from similar observable markets when not available. For FTRs, NRG uses the most recent auction prices to derive the fair value.

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The following tables quantify the significant unobservable inputs used in developing the fair value of the Company's Level 3 positions as of September 30, 2016 and December 31, 2015:

Significant Unobservable Inputs

September 30, 2016

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		Weighted Average
	Assets	Liabilities			Low	High	
	(In millions)						
Power Contracts	\$ 53	\$ 78	Discounted Cash Flow	Forward Market Price (per MWh)	\$ 11	\$ 81	\$ 27
Coal Contracts	—	5	Discounted Cash Flow	Forward Market Price (per ton)	44	44	44
FTRs	54	50	Discounted Cash Flow	Auction Prices (per MWh)	(63)	55	—

\$ 107 \$ 133

Significant Unobservable Inputs

December 31, 2015

	Fair Value		Valuation Technique	Significant Unobservable Input	Input/Range		Weighted Average
	Assets	Liabilities			Low	High	
	(In millions)						
Power Contracts	\$ 86	\$ 100	Discounted Cash Flow	Forward Market Price (per MWh)	\$ 10	\$ 92	\$ 27
Coal Contracts	—	12	Discounted Cash Flow	Forward Market Price (per ton)	28	45	35
FTRs	63	70	Discounted Cash Flow	Auction Prices (per MWh)	(98)	87	—

\$ 149 \$ 182

The following table provides sensitivity of fair value measurements to increases/(decreases) in significant unobservable inputs as of September 30, 2016 and December 31, 2015:

Significant Unobservable Input	Position	Change In Input	Impact on Fair Value Measurement
Forward Market Price Power/Coal	Buy	Increase/(Decrease)	Higher/(Lower)
Forward Market Price Power/Coal	Sell	Increase/(Decrease)	Lower/(Higher)
FTR Prices	Buy	Increase/(Decrease)	Higher/(Lower)
FTR Prices	Sell	Increase/(Decrease)	Lower/(Higher)

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. As of September 30, 2016, the credit reserve resulted in a \$2 million decrease in fair value, which is composed of a \$3 million gain in OCI and a \$5 million loss in operating revenue and cost of operations. As of September 30, 2015, the credit reserve resulted in a \$7 million increase in fair value, which was composed of a \$4 million gain in OCI and a \$3 million gain in operating revenues 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 2015 Form 10-K, the following is a discussion of the concentration of credit risk for the Company's contractual obligations. Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties pursuant to the terms of their contractual obligations. NRG is exposed to counterparty credit risk through various activities including wholesale sales, fuel purchases and retail supply arrangements, and retail customer credit risk through its retail load activities.

Counterparty Credit Risk

The Company's counterparty credit risk policies are disclosed in its 2015 Form 10-K. As of September 30, 2016, the Company's counterparty credit exposure, excluding credit risk exposure under certain long term agreements, was \$635 million with net exposure of \$607 million. NRG held collateral (cash and letters of credit) against those positions of \$45 million. Approximately 79% of the Company's exposure before collateral is expected to roll off by the end of 2017. Counterparty credit exposure is valued through observable market quotes and discounted at a risk free interest rate. The following tables highlight net counterparty credit exposure by industry sector and by counterparty credit quality. Net counterparty credit exposure is defined as the aggregate net asset position for NRG with counterparties where netting is permitted under the enabling agreement and includes all cash flow, mark-to-market and NPNS, and non-derivative transactions. The exposure is shown net of collateral held, and includes amounts net of receivables or payables.

Category by Industry Sector	Net Exposure (a)	(% of Total)
Financial institutions	33	%
Utilities, energy merchants, marketers and other	42	
ISOs	25	
Total as of September 30, 2016	100	%

Category by Counterparty Credit Quality	Net Exposure (a)	(% of Total)
Investment grade	90	%
Non-rated ^(b)	3	
Non-investment grade	7	
Total as of September 30, 2016	100	%

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

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

NRG has counterparty credit risk exposure to certain counterparties, each of which represent more than 10% of total net exposure discussed above. The aggregate of such counterparties' exposure was \$295 million as of September 30, 2016. 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, Gulf Coast load obligations, wind and solar PPAs, and a coal supply agreement. As external sources or observable market quotes are not available to estimate such exposure, the Company estimates its credit exposure for 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, 2016, aggregate credit risk exposure managed by NRG to these counterparties was approximately \$4.1 billion, including \$2.6 billion related to assets of NRG Yield, Inc., for the next five years. This amount excludes potential credit exposures for projects with long-term PPAs that have not reached commercial operations. The majority of these power contracts are with utilities or public power entities with strong credit quality and public utility commission or other regulatory support. However, such regulated utility counterparties can be impacted by changes in government regulations and other technology and

market factors, which NRG is unable to predict. In the case of the coal supply agreement, NRG holds a lien against the underlying asset, which significantly reduces 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 customers and the Mass market. Retail credit risk results when a customer fails to pay for products or services rendered. The losses may result from both nonpayment of customer accounts receivable and the loss of in-the-money forward value. NRG manages retail credit risk through the use of established credit policies that include monitoring of the portfolio, and the use of credit mitigation measures such as deposits or prepayment arrangements.

As of September 30, 2016, the Company believes its retail customer credit exposure was diversified across many customers and various industries, as well as government entities.

Note 5 — Nuclear Decommissioning Trust Fund

This footnote should be read in conjunction with the complete description under Note 6, Nuclear Decommissioning Trust Fund, to the Company's 2015 Form 10-K.

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

(In millions, except otherwise noted)	As of September 30, 2016				As of December 31, 2015			
	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	\$24	\$ —	\$ —	—	\$6	\$ —	\$ —	—
U.S. government and federal agency obligations	52	4	—	11	55	1	—	11
Federal agency mortgage-backed securities	68	2	—	25	59	1	—	25
Commercial mortgage-backed securities	17	—	1	26	25	—	2	28
Corporate debt securities	87	3	1	11	81	1	1	10
Equity securities	355	213	—	—	334	199	—	—
Foreign government fixed income securities	2	—	—	9	1	—	—	9
Total	\$605	\$ 222	\$ 2		\$561	\$ 202	\$ 3	

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, 2016		2015	
	(In millions)			
Realized gains	\$ 7	\$ 14		
Realized losses	3	10		
Proceeds from sale of securities	354	499		

Note 6 — Accounting for Derivative Instruments and Hedging Activities

This footnote should be read in conjunction with the complete description under Note 5, Accounting for Derivative Instruments and Hedging Activities, to the Company's 2015 Form 10-K.

Energy-Related Commodities

As of September 30, 2016, NRG had energy-related derivative instruments extending through 2027. The Company marks these derivatives to market through the statement of operations.

Interest Rate Swaps

NRG is exposed to changes in interest rates through the Company's issuance of variable rate debt. In order to manage the Company's interest rate risk, NRG enters into interest rate swap agreements. As of September 30, 2016, the Company had interest rate derivative instruments on recourse debt extending through 2021, which are not designated as cash flow hedges. The Company had interest rate swaps on non-recourse debt extending through 2032, most 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 category, excluding those derivatives that qualified for the NPNS exception, as of September 30, 2016 and December 31, 2015. 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.

Category	Units	Total Volume	
		September 30, 2016	December 31, 2015
(In millions)			
Emissions	Short Ton	1	1
Coal	Short Ton	29	35
Natural Gas	MMBtu	73	293
Oil	Barrel	—	1
Power	MWh	(35)	(74)
Capacity	MW/Day	(1)	(1)
Interest	Dollars	\$3,219	\$2,326
Equity	Shares	1	1

The decrease in the natural gas position was primarily the result of settlement of generation and retail hedge positions. The increase in the interest rate position was primarily the result of entering into new interest rate swaps to hedge the Term Loan Facility, as described in Note 8, Debt and Capital Leases.

Fair Value of Derivative Instruments

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

	Fair Value			
	Derivative Assets		Derivative Liabilities	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
(In millions)				
Derivatives designated as cash flow hedges:				
Interest rate contracts current	\$—	\$—	\$31	\$42
Interest rate contracts long-term	1	—	99	68
Total derivatives designated as cash flow hedges	1	—	130	110
Derivatives not designated as cash flow hedges:				
Interest rate contracts current	—	—	8	5
Interest rate contracts long-term	6	—	25	13
Commodity contracts current	964	1,915	930	1,674
Commodity contracts long-term	249	305	351	412
Total derivatives not designated as cash flow hedges	1,219	2,220	1,314	2,104

Total derivatives	\$1,220	\$ 2,220	\$1,444	\$ 2,214
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The Company has elected to present derivative assets and liabilities on the balance sheet on a trade-by-trade basis and does not offset amounts at the counterparty master agreement level. In addition, collateral received or paid on the Company's derivative assets or liabilities are recorded on a separate line item on the balance sheet. The following table summarizes the offsetting of derivatives by counterparty master agreement level and collateral received or paid:

	Gross Amounts Not Offset in the Statement of Financial Position			
	Gross			
	Amounts		Cash	
	of	Derivative	Collateral	Net
	Recognized	Instruments	(Held) /	Amount
	Assets /		Posted	
	Liabilities			
As of September 30, 2016	(In millions)			
Commodity contracts:				
Derivative assets	\$1,213	\$ (1,027)	\$ (23)	\$ 163
Derivative liabilities	(1,281)	1,027	121	(133)
Total commodity contracts	(68)	—	98	30
Interest rate contracts:				
Derivative assets	7	(4)	—	3
Derivative liabilities	(163)	4	—	(159)
Total interest rate contracts	(156)	—	—	(156)
Total derivative instruments	\$(224)	\$ —	\$ 98	\$(126)

	Gross Amounts Not Offset in the Statement of Financial Position			
	Gross			
	Amounts		Cash	
	of	Derivative	Collateral	Net
	Recognized	Instruments	(Held) /	Amount
	Assets /		Posted	
	Liabilities			
As of December 31, 2015	(In millions)			
Commodity contracts:				
Derivative assets	\$2,220	\$ (1,616)	\$ (113)	\$ 491
Derivative liabilities	(2,086)	1,616	271	(199)
Total commodity contracts	134	—	158	292
Interest rate contracts:				
Derivative liabilities	(128)	—	—	(128)
Total derivative instruments	\$6	\$ —	\$ 158	\$ 164

Accumulated Other Comprehensive Loss

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

	Three months ended September 30, 2016		Nine months ended September 30, 2016	
	Interest	Total	Interest	Total
	Rate	Commodities	Rate	Commodities
	(In millions)			
Accumulated OCI beginning balance	\$—	\$(165)	\$(101)	\$(101)

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Reclassified from accumulated OCI to income:

Due to realization of previously deferred amounts	—2	2	—12	12
Mark-to-market of cash flow hedge accounting contracts	—32	32	—(42)	(42)
Accumulated OCI ending balance, net of \$28 tax	\$—(131)	\$(131)	\$—(131)	\$(131)
Losses expected to be realized from OCI during the next 12 months, net of \$4 tax	\$—17	\$17	\$—17	\$17

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	Three months ended September 30, 2015			Nine months ended September 30, 2015		
	Energy Commodities	Interest Rate	Total	Energy Commodities	Interest Rate	Total
Accumulated OCI beginning balance	\$(1)	\$(62)	\$(63)	\$(1)	\$(67)	\$(68)
Reclassified from accumulated OCI to income:						
Due to realization of previously deferred amounts	1	3	4	1	7	8
Mark-to-market of cash flow hedge accounting contracts	—	(33)	(33)	—	(32)	(32)
Accumulated OCI ending balance, net of \$54 tax	\$—	\$(92)	\$(92)	\$—	\$(92)	\$(92)

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. There was no ineffectiveness for the three and nine months ended September 30, 2016, and 2015.

Impact of Derivative Instruments on the Statements 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 consolidated results of operations.

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 energy commodity contracts is included within operating revenues and cost of operations and the effect of interest rate contracts is included in interest expense.

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
	2016	2015	2016	2015
Unrealized mark-to-market results	(In millions)			
Reversal of previously recognized unrealized gains on settled positions related to economic hedges	\$(44)	\$(29)	\$(182)	\$(179)
Reversal of acquired gain positions related to economic hedges	(19)	(33)	(47)	(83)
Net unrealized (losses)/gains on open positions related to economic hedges	(121)	55	(19)	(26)
Total unrealized mark-to-market losses for economic hedging activities	(184)	(7)	(248)	()