NRG ENERGY, INC.
Form 10-Q
May 02, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended: March 31, 2019

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.)
804 Carnegie Center, Princeton, New Jersey	08540
(Address of principal executive offices)	(Zip Code)

(609) 524-4500
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Exchange on Which Registered
Common Stock, par value $0.01	NRG	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 April 30, 2019, there were 267,153,283 shares of common stock outstanding, par value $0.01 per share.

1

TABLE OF CONTENTS
Index

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q of NRG Energy, Inc., or NRG or the Company, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. The words "believes," "projects," "anticipates," "plans," "expects," "intends," "estimates" and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause NRG's actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, risks and uncertainties include the factors described under 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, 2018 and the following:

- NRG's ability to achieve the expected benefits of its Transformation Plan;
- NRG's ability to engage in successful sales and divestitures as well as mergers and acquisitions activity;
- NRG's ability to obtain and maintain retail market share;
- General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;
- Volatile power supply costs and demand for power;
- Changes in law, including judicial decisions;
- 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 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 changes in market rules, rates, tariffs and environmental laws;
- 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;
- Operating and financial restrictions placed on NRG and its subsidiaries that are contained in the indentures governing NRG's outstanding notes, in NRG's Senior Credit Facility, and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally;
- 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 coverage;
- NRG's ability to develop and build new power generation facilities;
- 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 increase cash from operations through operational and commercial initiatives, corporate efficiencies, asset strategy, and a range of other programs throughout NRG to reduce costs or generate revenues;
-

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

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

GLOSSARY OF TERMS

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

2018 Form 10-K	NRG’s Annual Report on Form 10-K for the year ended December 31, 2018
2023 Term Loan Facility	The Company's $1.7 billion term loan facility due 2023, a component of the Senior Credit Facility
ARO	Asset Retirement Obligation
ASC	The FASB Accounting Standards Codification, which the FASB established as the source of authoritative GAAP
ASU	Accounting Standards Updates - updates to the ASC
Average realized prices	Volume-weighted average power prices, net of average fuel costs and reflecting the impact of settled hedges
Bankruptcy Code	Chapter 11 of Title 11 the U.S. Bankruptcy Code
Bankruptcy Court	United States Bankruptcy Court for the Southern District of Texas, Houston Division
BETM	Boston Energy Trading and Marketing LLC
BTU	British Thermal Unit
Business Solutions	NRG's business solutions group, which includes demand response, commodity sales, energy efficiency and energy management services
CAA	Clean Air Act
CAISO	California Independent System Operator
Carlsbad	Carlsbad Energy Center, a 528 MW natural gas-fired project located in Carlsbad, CA
CDD	Cooling Degree Day
CDWR	California Department of Water Resources
CFTC	U.S. Commodity Futures Trading Commission
C&I	Commercial industrial and governmental/institutional
CES	Clean Energy Standard
Cleco	Cleco Corporate Holdings LLC
CO_2	Carbon Dioxide
ComEd	Commonwealth Edison
Company	NRG Energy, Inc.
CPP	Clean Power Plan
CWA	Clean Water Act
D.C. Circuit	U.S. Court of Appeals for the District of Columbia Circuit
Distributed Solar	Solar power projects that primarily sell power to customers for usage on site, or are interconnected to sell power into a local distribution grid
DNREC	Delaware Department of Natural Resources and Environmental Control
Economic gross margin	Sum of energy revenue, capacity revenue, retail revenue and other revenue, less cost of fuels and other cost of sales
EGU	Electric Generating Unit
EME	Edison Mission Energy
EPA	U.S. Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas
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
FGD	Flue gas desulfurization
FTRs	Financial Transmission Rights
GAAP	Generally accepted accounting principles in the U.S.

GenConn	GenConn Energy LLC

5

GenOn	GenOn Energy, Inc.
GenOn Entities	GenOn and certain of its wholly owned subsidiaries, including GenOn Americas Generation. that filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court on June 14, 2017
GHG	Greenhouse Gas
GIP	Global Infrastructure Partners
Green Mountain Energy	Green Mountain Energy Company
GWh	Gigawatt Hour
HAP	Hazardous Air Pollutant
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
HLW	High-level radioactive waste
ICE	Intercontinental Exchange
ISO	Independent System Operator, also referred to as RTOs
ISO-NE	ISO New England Inc.
kWh	Kilowatt-hour
LaGen	Louisiana Generating, LLC
LIBOR	London Inter-Bank Offered Rate
LTIPs	Collectively, the NRG LTIP and the NRG GenOn LTIP
Mass Market	Residential and small commercial customers
MATS	Mercury and Air Toxics Standards promulgated by the EPA
MDth	Thousand Dekatherms
Midwest Generation	Midwest Generation, LLC
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British Thermal Units
MW	Megawatts
MWe	Megawatt equivalent
MWh	Saleable megawatt hour net of internal/parasitic load megawatt-hour
NAAQS	National Ambient Air Quality Standards
NEPOOL	New England Power Pool
NERC	North American Electric Reliability Corporation
NJBPU	New Jersey Board of Public Utilities
Net Exposure	Counterparty credit exposure to NRG, net of collateral
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 Yield, Inc.	NRG Yield, Inc., which changed it's name to Clearway Energy, Inc. following the sale by NRG of NRG Yield and the Renewables Platform to GIP
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
Nuclear Waste Policy Act	U.S. Nuclear Waste Policy Act of 1982

NY DEC	New York Department of Environmental Conservation
NYISO	New York Independent System Operator
NYMEX	New York Mercantile Exchange
NYSPSC	New York State Public Service Commission

OCI/OCL	Other Comprehensive Income/(Loss)
ORDC	Operating Reserve Demand Curve
PA PUC	Pennsylvania Public Utility Commission
Peaking	Units expected to satisfy demand requirements during the periods of greatest or peak load on the system
Petra Nova	Petra Nova Parish Holdings, LLC which is 50% owned by NRG, owns and operates a 240 MWe carbon capture system and a 78 MW cogeneration facility, and owns an equity interest in an oilfield
PG&E	PG&E Corporation (NYSE: PCG) and its primary operating subsidiary, Pacific Gas and Electric Company
PJM	PJM Interconnection, LLC
PM2.5	Particulate Matter that has a diameter of less than 2.5 micrometers
PPA	Power Purchase Agreement
PUCT	Public Utility Commission of Texas
RCRA	Resource Conservation and Recovery Act of 1976
Reliant Energy	Reliant Energy Retail Services, LLC
Renewables	Consists of the following projects that NRG has an ownership interest in: Agua, Ivanpah, Sherbino and NFL stadiums
Renewables Platform	The renewable operating and development platform sold to GIP with NRG's interest in NRG Yield, Inc.
Retail	Reporting segment that includes NRG's residential and small commercial businesses which go to market as Reliant, NRG and other brands owned by NRG, as well as Business Solutions
RGGI	Regional Greenhouse Gas Initiative
RTO	Regional Transmission Organization
SDG&E	San Diego Gas & Electric
SEC	U.S. Securities and Exchange Commission
Securities Act	The Securities Act of 1933, as amended
Senior Credit Facility	NRG's senior secured credit facility, comprised of the Revolving Credit Facility and the 2023 Term Loan Facility
Senior Notes	As of December 31, 2018, NRG's $3.8 billion outstanding unsecured senior notes consisting of $733 million of 6.25% senior notes due 2024, $1.0 billion of the 7.25% senior notes due 2026, $1.23 billion of the 6.625% senior notes due 2027, and $821 million of 5.75% senior notes due 2028
SNF	Spent Nuclear Fuel
SO_2	Sulfur Dioxide
South Central Portfolio	NRG's South Central Portfolio, which owned and operated a portfolio of generation assets consisting of Bayou Cove, Big Cajun-I, Big Cajun-II, Cottonwood and Sterlington, was sold on February 4, 2019. NRG is leasing back the Cottonwood facility through May 2025
STP	South Texas Project — nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
STPNOC	South Texas Project Nuclear Operating Company
Texas Genco	Texas Genco LLC
TSA	Transportation Services Agreement
TWCC	Texas Westmoreland Coal Co.
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
VCP	Voluntary Clean-Up Program
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 March 31,	
(In millions, except for per share amounts)	2019	2018
Operating Revenues		
Total operating revenues	$2,165	$2,065
Operating Costs and Expenses		
Cost of operations	1,651	1,385
Depreciation and amortization	85	120
Selling, general and administrative	194	176
Reorganization costs	13	20
Development costs	2	5
Total operating costs and expenses	1,945	1,706
Gain on sale of assets	1	2
Operating Income	221	361
Other Income/(Expense)		
Equity in (losses)/earnings of unconsolidated affiliates	(21)	1
Other income, net	12	—
Loss on debt extinguishment, net	—	(2)
Interest expense	(114)	(116)
Total other expense	(123)	(117)
Income from Continuing Operations Before Income Taxes	98	244
Income tax expense	4	6
Income from Continuing Operations	94	238
Income/(loss) from discontinued operations, net of income tax	388	(5)
Net Income	482	233
Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interests	—	(46)
Net Income Attributable to NRG Energy, Inc.	$482	$279
Earnings per Share Attributable to NRG Energy, Inc.		
Weighted average number of common shares outstanding — basic	278	318
Income from continuing operations per weighted average common share — basic	$0.34	$0.90
Income/(loss) from discontinued operations per weighted average common share — basic	$1.39	$(0.02)
Earnings per Weighted Average Common Share — Basic	$1.73	$0.88
Weighted average number of common shares outstanding — diluted	280	322
Income from continuing operations per weighted average common share — diluted	$0.34	$0.89
Income/(loss) from discontinued operations per weighted average common share — diluted	$1.38	$(0.02)
Earnings per Weighted Average Common Share — Diluted	$1.72	$0.87
Dividends Per Common Share	$0.03	$0.03

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31, 2019	2018
	(In millions)	
Net Income	$482	$233
Other Comprehensive (Loss)/Income		
Unrealized gain on derivatives	—	14
Foreign currency translation adjustments	1	(2)
Defined benefit plans	(3)	(1)
Other comprehensive (loss)/income	(2)	11
Comprehensive Income	480	244
Less: Comprehensive loss attributable to noncontrolling interest and redeemable noncontrolling interest	—	(38)
Comprehensive Income Attributable to NRG Energy, Inc.	$480	$282

See accompanying notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share data)	March 31, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 859	$ 563
Funds deposited by counterparties	11	33
Restricted cash	15	17
Accounts receivable, net	898	1,024
Inventory	391	412
Derivative instruments	611	764
Cash collateral paid in support of energy risk management activities	388	287
Prepayments and other current assets	285	302
Current assets - held for sale	—	1
Current assets - discontinued operations	—	197
Total current assets	3,458	3,600
Property, plant and equipment, net	2,650	3,048
Other Assets		
Equity investments in affiliates	387	412
Operating lease right-of-use assets, net	517	—
Goodwill	573	573
Intangible assets, net	580	591
Nuclear decommissioning trust fund	718	663
Derivative instruments	347	317
Deferred income taxes	45	46
Other non-current assets	255	289
Non-current assets - held-for-sale	—	77
Non-current assets - discontinued operations	—	1,012
Total other assets	3,422	3,980
Total Assets	$ 9,530	$ 10,628
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	$ 124	$ 72
Current portion of operating lease liabilities	74	—
Accounts payable	697	863
Derivative instruments	489	673
Cash collateral received in support of energy risk management activities	11	33
Accrued expenses and other current liabilities	550	680
Current liabilities - held-for-sale	—	5
Current liabilities - discontinued operations	—	72
Total current liabilities	1,945	2,398
Other Liabilities		
Long-term debt and capital leases	6,366	6,449
Non-current operating lease liabilities	529	—
Nuclear decommissioning reserve	286	282
Nuclear decommissioning trust liability	423	371
Derivative instruments	350	304
Deferred income taxes	62	65

Other non-current liabilities	1,089	1,274
Non-current liabilities - held-for-sale	—	65
Non-current liabilities - discontinued operations	—	635
Total other liabilities	9,105	9,445
Total Liabilities	11,050	11,843
Redeemable noncontrolling interest in subsidiaries	18	19
Commitments and Contingencies		
Stockholders' Equity		
Common stock; $0.01 par value; 500,000,000 shares authorized; 421,786,061 and 420,288,886 shares issued and 267,538,257 and 283,650,039 shares outstanding at March 31, 2019 and December 31, 2018, respectively	4	4
Additional paid-in capital	8,473	8,510
Accumulated deficit	(5,548)	(6,022)
Less treasury stock, at cost - 154,247,804 and 136,638,847 shares at March 31, 2019 and December 31, 2018, respectively	(4,371)	(3,632)
Accumulated other comprehensive loss	(96)	(94)
Total Stockholders' Equity	(1,538)	(1,234)
Total Liabilities and Stockholders' Equity	$ 9,530	$ 10,628

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
(In millions)	2019	2018
Cash Flows from Operating Activities		
Net income	$482	$233
Income/(loss) from discontinued operations, net of income tax	388	(5)
Net income from continuing operations	94	238
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in losses/(earnings) of unconsolidated affiliates	21	(1)
Depreciation, amortization and accretion	92	131
Provision for bad debts	26	15
Amortization of nuclear fuel	13	13
Amortization of financing costs and debt discount/premiums	7	6
Adjustment for debt extinguishment	—	2
Amortization of intangibles and out-of-market contracts	6	9
Amortization of unearned equity compensation	4	6
Loss/(gain) on sale and disposal of assets	3	(10)
Changes in derivative instruments	(15)	(203)
Changes in deferred income taxes and liability for uncertain tax benefits	(2)	(1)
Changes in collateral deposits in support of energy risk management activities	(123)	163
Changes in nuclear decommissioning trust liability	9	34
Changes in other working capital	(270)	(156)
Cash (used)/provided by continuing operations	(135)	246
Cash provided by discontinued operations	8	104
Net Cash (Used)/Provided by Operating Activities	(127)	350
Cash Flows from Investing Activities		
Payments for acquisitions of businesses	(16)	(2)
Capital expenditures	(49)	(155)
Net proceeds from sale of emission allowances	—	6
Investments in nuclear decommissioning trust fund securities	(122)	(216)
Proceeds from the sale of nuclear decommissioning trust fund securities	113	182
Proceeds from sale of assets, net of cash disposed and sale of discontinued operations, net of fees	1,313	53
Changes in investments in unconsolidated affiliates	4	(8)
Contributions to discontinued operations	(44)	(29)
Other	(1)	—
Cash provided/(used) by continuing operations	1,198	(169)
Cash used by discontinued operations	(2)	(291)
Net Cash Provided/(Used) by Investing Activities	1,196	(460)
Cash Flows from Financing Activities		
Payments of dividends to common stockholders	(8)	(10)
Payments for treasury stock	(747)	(93)
Distributions to noncontrolling interests from subsidiaries	(1)	(10)
Proceeds from issuance of common stock	2	7
Payment of debt issuance costs	—	(2)
Payments for long-term debt	(37)	(39)

Cash used by continuing operations	(791)	(147)
Cash provided by discontinued operations	43	133
Net Cash Used by Financing Activities	(748)	(14)
Change in Cash from discontinued operations	49	(54)
Net Increase/(Decrease) in Cash and Cash Equivalents, Funds Deposited by Counterparties and Restricted Cash	272	(70)
Cash and Cash Equivalents, Funds Deposited by Counterparties and Restricted Cash at Beginning of Period	613	1,086
Cash and Cash Equivalents, Funds Deposited by Counterparties and Restricted Cash at End of Period	$885	$1,016

See accompanying notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total Stock-holders' Equity
	(In millions)					
Balances at December 31, 2018	$4	$ 8,510	$ (6,022)	$(3,632)	$ (94)	$ (1,234)
Net income			482			482
Other comprehensive loss					(2)	(2)
Share repurchases		(10)		(739)		(749)
Equity-based compensation		(32)				(32)
Issuance of common stock		5				5
Common stock dividends			(8)			(8)
Balances at March 31, 2019	$4	$ 8,473	$ (5,548)	$(4,371)	$ (96)	$ (1,538)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Noncon-trolling Interest	Total Stock-holders' Equity
	(In millions)						
Balances at December 31, 2017	$4	$ 8,376	$ (6,268)	$(2,386)	$ (72)	$2,314	$ 1,968
Net income/(loss)			279			(30)	249
Other comprehensive income					11		11
Sale of assets to NRG Yield, Inc.		8				4	12
ESPP share purchases		(2)		5			3
Share repurchases				(93)			(93)
Equity-based compensation		(10)					(10)
Issuance of common stock		7					7
Common stock dividends			(10)				(10)
Distributions to noncontrolling interests						(19)	(19)
Dividends paid to NRG Yield, Inc.						(30)	(30)
Contributions from noncontrolling interests						153	153
Adoption of new accounting standards			17				17
Balances at March 31, 2018	$4	$ 8,379	$ (5,982)	$(2,474)	$ (61)	$2,392	$ 2,258

See accompanying notes to condensed consolidated financial statements.

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

Note 1 — Nature of Business and Basis of Presentation

General

NRG Energy, Inc., or NRG or the Company, is an energy company built on dynamic retail brands with diverse generation assets. NRG brings the power of energy to consumers by producing, selling and delivering electricity and related 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 is perfecting the integrated model by balancing retail load with generation supply within its deregulated markets, while evolving to a customer-driven business. The Company sells energy, services, and innovative, sustainable products and services directly to retail customers under the names "NRG", "Reliant" and other brand names owned by NRG, supported by approximately 23,000 MW of generation as of March 31, 2019.

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 2018 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 March 31, 2019, and the results of operations, comprehensive income, cash flows and statements of stockholders' equity for the three months ended March 31, 2019 and 2018.

Discontinued Operations

During the fourth quarter of 2018, as described in Note 4, Discontinued Operations and Dispositions, the Company concluded that the sale of its South Central Portfolio to Cleco, excluding the Cottonwood facility, met held-for-sale criteria and should be presented as discontinued operations, as the sale, which closed on February 4, 2019, represented a strategic shift in the business in which NRG operates. The financial information for all historical periods has been recast to reflect the presentation of these entities as discontinued operations.

On August 31, 2018, as described in Note 4, Discontinued Operations and Dispositions, NRG deconsolidated NRG Yield, Inc. and its Renewables Platform for financial reporting purposes. The financial information for all historical periods has been recast to reflect the presentation of these entities, as well as the Carlsbad project, as discontinued operations. As a result of the sale of NRG Yield, the Company no longer controls the Agua Caliente project. Due to this change in control, the Company also deconsolidated the Agua Caliente project from its financial results and began accounting for the project as an equity method investment.

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.

Note 2 — Summary of Significant Accounting Policies

Net Income attributable to NRG Energy, Inc.

The following table reflects the net income attributable to NRG Energy, Inc. after removing the net loss attributable to the noncontrolling interest and redeemable noncontrolling interest:

	Three months ended March 31,	
	2019	2018
	(In millions)	
Income from continuing operations, net of income tax	$94	$245
Income from discontinued operations, net of income tax	388	34
Net income attributable to NRG Energy, Inc.	$482	$279

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:

	March 31, 2019	December 31, 2018
	(In millions)	
Accounts receivable allowance for doubtful accounts	$32	$ 32
Property, plant and equipment accumulated depreciation	1,610	1,811
Intangible assets accumulated amortization	1,171	1,149
Out-of-market contracts accumulated amortization	—	37

Restricted Cash

The following table provides a reconciliation of cash and cash equivalents, restricted cash and funds deposited by counterparties reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	March 31, 2019	December 31, 2018	March 31, 2018	December 31, 2017
	(In millions)			
Cash and cash equivalents	$859	$ 563	$514	$ 770
Funds deposited by counterparties	11	33	241	37
Restricted cash	15	17	261	279
Cash and cash equivalents, funds deposited by counterparties and restricted cash shown in the statement of cash flows	$885	$ 613	$1,016	$ 1,086

Funds deposited by counterparties consist of cash held by the Company as a result of collateral posting obligations from its counterparties. Some amounts are segregated into separate accounts that are not contractually restricted but, based on the Company's intention, are not available for the payment of general corporate obligations. Depending on market fluctuations and the settlement of the underlying contracts, the Company will refund this collateral to the hedge counterparties pursuant to the terms and conditions of the underlying trades. Since collateral requirements fluctuate daily and the Company cannot predict if any collateral will be held for more than twelve months, the funds deposited by counterparties are classified as a current asset on the Company's balance sheet, with an offsetting liability for this cash collateral received within current liabilities.

Restricted cash consists primarily of funds held to satisfy the requirements of certain debt agreements and funds held within the Company's projects that are restricted in their use.

Recent Accounting Developments - Guidance Adopted in 2019

ASU 2016-02 - In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), or Topic 842, which was further amended through various updates issued by the FASB thereafter, 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 by expanding the related disclosures. The guidance in Topic 842 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, Topic 842 expands the required quantitative and qualitative disclosures with regards to lease arrangements. The Company adopted the standard and its subsequent corresponding updates effective January 1, 2019 under the modified retrospective approach by applying the provisions of the new leases guidance at the effective date without adjusting the comparative periods presented. The Company assessed its leasing arrangements, evaluated the impact of applying practical expedients and accounting policy elections, and implemented lease accounting software to meet the reporting requirements of the standard. The Company established operating lease liabilities of $404 million and right-of-use assets of $321 million upon adoption, before considering deferred taxes. The adoption of Topic 842 did not have a material impact on the statements of operations or cash flows. See Note 8, Leases, for further discussion.

Recent Accounting Developments - Guidance Not Yet Adopted

ASU 2018-17 - In October 2018, the FASB issued ASU No. 2018-17, Consolidations (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities, in response to stakeholders' observations that Topic 810, Consolidations, could be improved thereby improving general purpose financial reporting. Specifically, ASC 2018-17 requires application of the variable interest entity (VIE) guidance to private companies under common control and consideration of indirect interest held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. All entities are required to apply the amendments retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company is evaluating the impact of adopting this guidance on the consolidated financial statements and disclosures.

ASU 2018-13 - In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirement for Fair value Measurement), or ASU No. 2018-13. The guidance in ASU No. 2018-13 eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The amendments in ASU No. 2018-13 add new disclosure requirements for Level 3 measurements. ASU No. 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. Certain disclosures in ASU No. 2018-13 are required to be applied on a retrospective basis and others on a prospective basis. As the amendment contemplates changes in disclosures only, it will have no material impact on the Company's results of operations, cash flows, or statement of financial position.

Note 3 — Revenue Recognition

Performance Obligations

As of March 31, 2019, estimated future fixed fee performance obligations are $500 million, $500 million, $535 million, $284 million and $29 million for fiscal years 2019, 2020, 2021, 2022 and 2023, respectively. These performance obligations are for cleared auction MWs in the PJM, ISO-NE, NYISO and MISO capacity auctions and are subject to penalties for non performance.

Disaggregated Revenues

The following table represents the Company’s disaggregation of revenue from contracts with customers for the three months ended March 31, 2019 and March 31, 2018, along with the reportable segment for each category:

	Three months ended March 31, 2019					
		Generation				
(In millions)	Retail	Texas	East/West/Other	Subtotal	Corporate/Eliminations	Total
Energy revenue[(a)(b)]	$—	$358	$ 224	$ 582	$ (276)	$306
Capacity revenue[(a)]	—	—	155	155	(1)	154
Retail revenue						
Mass customers	1,321	—	—	—	(1)	1,320
Business Solutions customers	286	—	—	—	—	286
Total retail revenue	1,607	—	—	—	(1)	1,606
Mark-to-market for economic hedging activities[(b)(c)]	—	13	(8)	5	15	20
Other revenues[(a)]	—	29	52	81	(2)	79
Total operating revenue	1,607	400	423	823	(265)	2,165
Less: Lease revenue	3	—	2	2	—	5
Less: Realized and unrealized ASC 815 revenue[(b)]	—	546	97	643	(262)	381
Total revenue from contracts with customers	$1,604	$(146)	$ 324	$ 178	$ (3)	$1,779

(a) The following amounts of energy and capacity revenue primarily relate to derivative instruments and are accounted for under ASC 815

	Retail	Texas	East/West/Other	Subtotal	Corporate/Eliminations	Total
Energy revenue	$—	$525	$ 88	$ 613	$ (277)	$336
Capacity revenue	—	—	18	18	—	18
Other revenue	—	8	(1)	7	—	7

(b) Generation includes higher revenues due to the Company's large internal transfer of power based on average annualized market prices, which are offset by higher cost of operations within Retail

(c) Revenue relates entirely to unrealized gains and losses on derivative instruments accounted for under ASC 815

	Three months ended March 31, 2018					
		Generation				
(In millions)	Retail	Texas	East/West/Other	Subtotal	Corporate/Eliminations	Total
Energy revenue[(a)(b)]	$—	$265	$ 339	$ 604	$ (161)	$443
Capacity revenue[(a)]	—	—	142	142	—	142
Retail revenue						
Mass customers	1,176	—	—	—	(1)	1,175
Business Solutions customers	310	—	—	—	—	310
Total retail revenue	1,486	—	—	—	(1)	1,485
Mark-to-market for economic hedging activities[(b)(c)]	(6)	(569)	(5)	(574)	484	(96)
Other revenues[(a)]	—	53	45	98	(7)	91
Total operating revenue	1,480	(251)	521	270	315	2,065
Less: Lease revenue	3	—	2	2	—	5
Less: Realized and unrealized ASC 815 revenue[(b)]	(6)	(150)	85	(65)	327	256
Total revenue from contracts with customers	$1,483	$(101)	$ 434	$ 333	$ (12)	$1,804

(a) The following amounts of energy and capacity revenue relate to derivative instruments and are accounted for under ASC 815

	Retail	Texas	East/West/Other	Subtotal	Corporate/Eliminations	Total

Energy revenue	$—	$413	$ 60	$ 473	$ (157)	$316
Capacity revenue	—	—	26	26	—	26
Other revenue	—	5	3	8	—	8

(b) Generation includes higher revenues due to the Company's large internal transfer of power based on average annualized market prices, which are offset by higher cost of operations within Retail
(c) Revenue relates entirely to unrealized gains and losses on derivative instruments accounted for under ASC 815

Contract Balances

The following table reflects the contract assets and liabilities included in the Company's balance sheet as of March 31, 2019 and December 31, 2018:

(In millions)	March 31, 2019	December 31, 2018
Deferred customer acquisition costs	$ 117	$ 111
Accounts receivable, net - Contracts with customers	870	999
Accounts receivable, net - Derivative instruments	22	20
Accounts receivable, net - Affiliate	6	5
Total accounts receivable, net	$ 898	$ 1,024
Unbilled revenues (included within Accounts receivable, net - Contracts with customers)	$ 305	$ 392
Deferred revenues	80	67

Note 4 — Discontinued Operations and Dispositions

Discontinued Operations

Sale of South Central Portfolio

On February 4, 2019, the Company completed the sale of the South Central Portfolio to Cleco for cash consideration of $1 billion excluding working capital and other adjustments. The Company concluded that the divested business met the criteria for discontinued operations as of December 31, 2018, as the disposition represented a strategic shift in the business in which NRG operates and the criteria for held-for-sale were met. As such, all current and prior period results for the operations of the South Central Portfolio, except for the Cottonwood facility as discussed below, have been reclassified as discontinued operations. In connection with the transaction, NRG also entered into a transition services agreement to provide certain corporate services to the divested business.

The South Central Portfolio includes the 1,153 MW Cottonwood natural gas generating facility. Upon the closing of the sale of the South Central Portfolio, NRG entered into an agreement with Cleco to leaseback the Cottonwood facility through May 2025. Due to its continuing involvement with the Cottonwood facility, NRG did not use discontinued operations treatment in accounting for historical and ongoing activity with Cottonwood.

Summarized results of the South Central Portfolio discontinued operations were as follows:

(In millions)	Three months ended March 31, 2019	March 31, 2018
Operating revenues	$31	$102
Operating costs and expenses	(23)	(86)
Gain from discontinued operations, net of tax	8	16
Gain on disposal of discontinued operations, net of tax	27	—
Gain from discontinued operations, including disposal, net of tax	$35	$16

The following table summarizes the major classes of assets and liabilities classified as discontinued operations of the South Central Portfolio:

(In millions)	December 31, 2018
Cash and cash equivalents	$ 89
Accounts receivable, net - trade	49

Inventory	35
Other current assets	5
Current assets - discontinued operations	178
Property, plant and equipment, net	408
Other non-current assets	1
Non-current assets - discontinued operations	409
Accounts payable	19
Other current liabilities	5
Current liabilities - discontinued operations	24
Out-of-market contracts, net	50
Other non-current liabilities	11
Non-current liabilities - discontinued operations	$ 61

Sale of Ownership in NRG Yield, Inc. and the Renewables Platform

On August 31, 2018, the Company completed the sale of its ownership interests in NRG Yield, Inc. and the Renewables Platform to GIP for total cash consideration of $1.348 billion. The Company concluded that the divested businesses met the criteria for discontinued operations, as the dispositions represent a strategic shift in the markets in which NRG operates. As such, all prior period results for NRG Yield, Inc. and the Renewables Platform have been reclassified as discontinued operations. In connection with the transaction, NRG entered into a transition services agreement to provide certain corporate services to the divested businesses.

Carlsbad

On February 6, 2018, NRG entered into an agreement with NRG Yield and GIP to sell 100% of its membership interests in Carlsbad Energy Holdings LLC, which owns the Carlsbad project, for $385 million of cash consideration, excluding working capital adjustments. The primary condition to close the Carlsbad transaction was the completion of the sale of NRG Yield and the Renewables Platform. At the time of the sale of NRG Yield and the Renewables Platform in August 2018, the Company concluded that the Carlsbad project met the criteria for discontinued operations and accordingly, all current and prior period results for Carlsbad have been reclassified as discontinued operations. The Company continued to consolidate Carlsbad for financial reporting purposes until the transaction closed on February 27, 2019. Carlsbad continues to have a ground lease and easement agreement with NRG with an initial term ending in 2039 and two ten year extensions. As a result of the transaction, additional commitments related to the project totaled approximately $23 million as of December 31, 2018 and March 31, 2019.

Summarized results of NRG Yield, Inc. and the Renewables Platform and Carlsbad discontinued operations were as follows:

(In millions)	Three months ended March 31, 2019	March 31, 2018
Operating revenues	$19	$260
Operating costs and expenses	(9)	(230)
Other expenses	(5)	(58)
Gain/(loss) from operations of discontinued components, before tax	5	(28)
Income tax benefit	—	(7)
Gain/(loss) from discontinued operations, net of tax	5	(21)
Gain on disposal of discontinued operations, net of tax	348	—
Gain/(loss) from discontinued operations, including disposal, net of tax	$353	$(21)

The following table summarizes the major classes of assets and liabilities classified as discontinued operations of Carlsbad:

(In millions)	December 31, 2018
Restricted cash	$ 4
Accounts receivable, net - trade	10
Other current assets	5
Current assets - discontinued operations	19
Property, plant and equipment, net	590
Intangible assets, net	9
Other non-current assets	4
Non-current assets - discontinued operations	603
Current portion of long-term debt and capital leases	20
Accounts payable	27
Other current liabilities	1
Current liabilities - discontinued operations	48
Long-term debt and capital leases	572
Other non-current liabilities	2
Non-current liabilities - discontinued operations	$ 574

Sale of Assets to NRG Yield, Inc. Prior to Discontinued Operations

On March 30, 2018, the Company sold to NRG Yield, Inc. 100% of NRG's interests in Buckthorn Renewables, LLC, which owns a 154 MW construction-stage utility-scale solar generation project, located in Texas. NRG Yield, Inc. paid cash consideration of approximately $42 million, excluding working capital adjustments, and assumed non-recourse debt of approximately $183 million.

GenOn

On June 14, 2017, the GenOn Entities filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. As a result of the bankruptcy filings, NRG concluded that it no longer controlled GenOn as it was subject to the control of the Bankruptcy Court; and, accordingly, NRG deconsolidated GenOn for financial reporting purposes as of June 14, 2017.

By eliminating a large portion of its operations in the PJM market with the deconsolidation of GenOn, NRG concluded that GenOn met the criteria for discontinued operations, as this represented a strategic shift in the business in which NRG operates. As such, all prior period results for GenOn have been reclassified as discontinued operations. GenOn's plan of reorganization was confirmed on December 14, 2018. Income from discontinued operations for the three months ended March 31, 2018 was immaterial.

Dispositions

The Company completed other asset sales for $10 million and $11 million of cash proceeds during the three months ended March 31, 2019 and 2018, respectively.

Note 5 — Fair Value of Financial Instruments

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 amounts approximate fair values 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 March 31, 2019		As of December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Assets:				
Notes receivable	$17	$ 14	$17	$ 14
Liabilities:				
Long-term debt, including current portion [(a)]	6,558	6,971	6,591	6,697

(a) 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 March 31, 2019 and December 31, 2018:

	As of March 31, 2019		As of December 31, 2018	
	Level 2	Level 3	Level 2	Level 3
	(In millions)			
Long-term debt, including current portion	$6,834	$137	$6,528	$169

Recurring Fair Value Measurements

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

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

	As of March 31, 2019			
(In millions)	Total	Level 1	Level 2	Level 3
Investments in securities (classified within other current and non-current assets)	$37	$1	$18	$18
Nuclear trust fund investments:				
Cash and cash equivalents	15	15	—	—
U.S. government and federal agency obligations	50	50	—	—
Federal agency mortgage-backed securities	96	—	96	—
Commercial mortgage-backed securities	29	—	29	—
Corporate debt securities	100	—	100	—
Equity securities	354	354	—	—
Foreign government fixed income securities	4	—	4	—
Other trust fund investments:				
U.S. government and federal agency obligations	1	1	—	—
Derivative assets:				
Commodity contracts	929	45	769	115
Interest rate contracts	29	—	29	—
Measured using net asset value practical expedient:				
Equity securities — nuclear trust fund investments	70			
Equity securities	9			
Total assets	$1,723	$466	$1,045	$133
Derivative liabilities:				
Commodity contracts	$839	$107	$615	$117
Total liabilities	$839	$107	$615	$117

	As of December 31, 2018			
(In millions)	Total	Level 1	Level 2	Level 3
Investments in securities (classified within other current and non-current assets)	$39	$2	$18	$19
Nuclear trust fund investments:				
Cash and cash equivalents	19	19	—	—
U.S. government and federal agency obligations	46	46	—	—
Federal agency mortgage-backed securities	100	—	100	—
Commercial mortgage-backed securities	22	—	22	—
Corporate debt securities	96	—	96	—
Equity securities	312	312	—	—
Foreign government fixed income securities	4	—	4	—
Other trust fund investments:				
U.S. government and federal agency obligations	1	1	—	—
Derivative assets:				
Commodity contracts	1,042	137	796	109
Interest rate contracts	39	—	39	—
Measured using net asset value practical expedient:				
Equity securities — nuclear trust fund investments	64			
Equity securities	8			

Total assets	$1,792	$517	$1,075	$128
Derivative liabilities:				
Commodity contracts	$977	$224	$664	$89
Total liabilities	$977	$224	$664	$89

There were no transfers during the three months ended March 31, 2019 and 2018 between Levels 1 and 2. The following tables reconcile, for the three months ended March 31, 2019 and 2018, 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:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Three months ended March 31, 2019		
(In millions)	Debt Securities	Derivatives[a]	Total
Beginning balance as of January 1, 2019	$19	$ 20	$39
Total losses — realized/unrealized included in earnings	—	(10)	(10)
Cash received	(1)	—	(1)
Purchases	—	(2)	(2)
Transfers into Level 3[b]	—	17	17
Transfers out of Level 3[b]	—	(27)	(27)
Ending balance as of March 31, 2019	$18	$ (2)	$16
(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 March 31, 2019	$—	$ (12)	$(12)

(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

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Three months ended March 31, 2018		
(In millions)	Debt Securities	Derivatives[a]	Total
Beginning balance as of January 1, 2018	$19	$ (15)	$ 4
Total gains — realized/unrealized included in earnings	—	11	11
Purchases	—	1	1
Transfers into Level 3[b]	—	4	4
Transfers out of Level 3[b]	—	4	4
Ending balance as of March 31, 2018	$19	$ 5	$ 24
Gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held as of March 31, 2018	$—	$ 12	$ 12

(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. These contracts are valued based on various valuation techniques including, but not limited to, internal models based on a fundamental analysis of the market and extrapolation of the observable market data with similar characteristics. As of March 31, 2019, contracts valued with prices provided by models and other valuation techniques make up 12% of derivative assets and 14% of derivative liabilities.

NRG's significant positions classified as Level 3 include physical and financial power executed in illiquid markets as well as financial transmission rights, or FTRs. The significant unobservable inputs used in developing fair value include illiquid power 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.

The following tables quantify the significant unobservable inputs used in developing the fair value of the Company's Level 3 positions as of March 31, 2019 and December 31, 2018:

	March 31, 2019						
	Fair Value				Input/Range		
	Assets	Liabilities	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
	(In millions)						
Power Contracts	$89	$ 104	Discounted Cash Flow	Forward Market Price (per MWh)	0	$253	$ 28
FTRs	26	13	Discounted Cash Flow	Auction Prices (per MWh)	(42)	38	0
	$115	$ 117					

	December 31, 2018						
	Fair Value				Input/Range		
	Assets	Liabilities	Valuation Technique	Significant Unobservable Input	Low	High	Weighted Average
	(In millions)						
Power Contracts	$ 89	$ 75	Discounted Cash Flow	Forward Market Price (per MWh)	$ 1	$ 214	$ 31
FTRs	20	14	Discounted Cash Flow	Auction Prices (per MWh)	(90)	34	0
	$ 109	$ 89					

The following table provides sensitivity of fair value measurements to increases/(decreases) in significant unobservable inputs as of March 31, 2019 and December 31, 2018:

Significant Unobservable Input	Position	Change In Input	Impact on Fair Value Measurement
Forward Market Price Power	Buy	Increase/(Decrease)	Higher/(Lower)
Forward Market Price Power	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 March 31, 2019 and December 31, 2018, the credit reserve did not result in a significant change in fair value 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 2018 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 2018 Form 10-K. As of March 31, 2019, counterparty credit exposure, excluding credit exposure from RTOs, ISOs, registered commodity exchanges and certain long-term agreements, was $259 million and NRG held collateral (cash and letters of credit) against those positions of $102 million, resulting in a net exposure of $162 million. Approximately 50% of the Company's exposure before collateral is expected to roll off by the end of 2020. 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)(b)] (% of Total)	
Utilities, energy merchants, marketers and other	78	%
Financial institutions	22	
Total as of March 31, 2019	100	%

Category by Counterparty Credit Quality	Net Exposure [(a) (b)] (% of Total)	
Investment grade	52	%
Non-Investment grade/Non-Rated	48	
Total as of March 31, 2019	100	%

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

(b) The figures in the tables above exclude potential counterparty credit exposure related to RTOs, ISOs, registered commodity exchanges and certain long-term contracts

The Company currently has no exposure to any individual wholesale counterparties in excess of 10% of total net exposure discussed above as of March 31, 2019. 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 its financial position or results of operations from nonperformance by any of NRG's counterparties.

RTOs and ISOs

The Company participates in the organized markets of CAISO, ERCOT, ISO-NE, MISO, NYISO and PJM, known as RTOs or ISOs. Trading in these markets is approved by FERC, or in the case of ERCOT, approved by the PUCT, and includes credit policies that, under certain circumstances, require that losses arising from the default of one member on spot market transactions be shared by the remaining participants. As a result, the counterparty credit risk to these markets is limited to NRG’s share of the overall market and are excluded from the above exposures.

Exchange Traded Transactions

The Company enters into commodity transactions on registered exchanges, notably ICE, NYMEX and Nodal. These clearinghouses act as the counterparty and transactions are subject to extensive collateral and margining requirements. As a result, these commodity transactions have limited counterparty credit risk.

Long-Term Contracts

Counterparty credit exposure described above excludes credit risk exposure under certain long-term contracts, primarily solar PPAs. As external sources or observable market quotes are not available to estimate such exposure, the Company values these contracts based on various techniques including, but not limited to, internal models based on a fundamental analysis of the market and extrapolation of observable market data with similar characteristics. Based on these valuation techniques, as of March 31, 2019, aggregate credit risk exposure managed by NRG to these counterparties was approximately $596 million for the next five years, including exposure to PG&E as described below. This amount excludes potential credit exposures for projects with long-term PPAs that have not reached commercial operations.

NRG, through its unconsolidated affiliates Ivanpah and Agua Caliente, has exposure to PG&E of approximately $326 million for the next five years. As a result of the bankruptcy filing by PG&E on January 29, 2019, it is uncertain whether and to what extent the bankruptcy may have an effect on these contracts. For further discussion see Note 10, Investments Accounted for Using the Equity Method and Variable Interest Entities, or VIEs.

Retail Customer Credit Risk

The Company is exposed to retail credit risk through the Company's retail electricity providers, which serve C&I customers and the Mass market. Retail credit risk results in losses 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. The Company 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 March 31, 2019, the Company's retail customer credit exposure to C&I and Mass customers was diversified across many customers and various industries, as well as government entities.

Note 6 — Nuclear Decommissioning Trust Fund

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

	As of March 31, 2019				As of December 31, 2018			
(In millions, except maturities)	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	$15	$ —	$ —	—	$19	$ —	$ —	—
U.S. government and federal agency obligations	50	2	—	13	46	1	—	12
Federal agency mortgage-backed securities	96	1	1	25	100	1	2	23
Commercial mortgage-backed securities	29	1	—	23	22	—	1	22
Corporate debt securities	100	3	1	11	96	1	2	11
Equity securities	424	276	—	—	376	231	1	—
Foreign government fixed income securities	4	—	—	10	4	—	—	9
Total	$718	$ 283	$ 2		$663	$ 234	$ 6	

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.

	Three months ended March 31,	
	2019	2018
	(In millions)	
Realized gains	$3	$3

Realized losses	(2)	(3)
Proceeds from sale of securities	113	182

Note 7 — Accounting for Derivative Instruments and Hedging Activities

Energy-Related Commodities

As of March 31, 2019, NRG had energy-related derivative instruments extending through 2034. The Company marks these derivatives to market through the statement of operations. NRG has executed power purchase agreements extending through 2033 that qualified for the NPNS exception and were therefore exempt from fair value accounting treatment.

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 March 31, 2019, NRG had interest rate derivative instruments on recourse debt extending through 2021.

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 March 31, 2019 and December 31, 2018. Option contracts are reflected using delta volume. Delta volume equals the notional volume of an option adjusted for the probability that the option will be in-the-money at its expiration date.

		Total Volume	
		March 31, 2019	December 31, 2018
Category	Units	(In millions)	
Emissions	Short Ton	1	(2)
Renewable Energy Certificates	Certificates	1	1
Coal	Short Ton	9	13
Natural Gas	MMBtu	(236)	(330)
Oil	Barrels	—	1
Power	MWh	8	1
Capacity	MW/Day	(1)	(1)
Interest	Dollars	$1,000	$ 1,000

The decrease in the natural gas position was primarily the result of additional retail hedge positions and settlement of generation hedges.

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	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	(In millions)			
Derivatives Not Designated as Cash Flow or Fair Value Hedges:				
Interest rate contracts current	$ 15	$ 17	$ —	$ —
Interest rate contracts long-term	14	22	—	—
Commodity contracts	596	747	489	673

current				
Commodity contracts long-term	333	295	350	304
Total Derivatives Not Designated as Cash Flow or Fair Value Hedges	$ 958	$ 1,081	$ 839	$ 977

25

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 March 31, 2019 Balance Sheet			
	Gross Amounts of Recognized Assets / Liabilities	Derivative Instruments	Cash Collateral (Held) / Posted	Net Amount
	(In millions)			
Commodity contracts:				
Derivative assets	$929	$ (689)	$ (5)	$ 235
Derivative liabilities	(839)	689	92	(58)
Total commodity contracts	90	—	87	177
Interest rate contracts:				
Derivative assets	29	—	—	29
Total interest rate contracts	29	—	—	29
Total derivative instruments	$119	$ —	$ 87	$ 206

	Gross Amounts Not Offset in the December 31, 2018 Balance Sheet			
	Gross Amounts of Recognized Assets / Liabilities	Derivative Instruments	Cash Collateral (Held) / Posted	Net Amount
	(In millions)			
Commodity contracts:				
Derivative assets	$1,042	$ (778)	$ (31)	$ 233
Derivative liabilities	(977)	778	114	(85)
Total commodity contracts	65	—	83	148
Interest rate contracts:				
Derivative assets	39	—	—	39
Total interest rate contracts	39	—	—	39
Total derivative instruments	$104	$ —	$ 83	$ 187

Accumulated Other Comprehensive Loss

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

	Interest Rate Contracts	
	Three months ended March 31,	
	2019	2018

	(In millions)	
Accumulated OCL beginning balance	$ —	$ (54)
Reclassified from accumulated OCL to income:		
Due to realization of previously deferred amounts	—	4
Mark-to-market of cash flow hedge accounting contracts	—	19
Accumulated OCL ending balance, net of $0, and $6 tax	$ —	$ (31)

Amounts reclassified from accumulated OCL into income are recorded in discontinued operations.

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 are reflected in current period results of operations.

The following table summarizes the pre-tax effects of economic hedges that have not been designated as 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 March 31,	
	2019	2018
Unrealized mark-to-market results	(In millions)	
Reversal of previously recognized unrealized losses on settled positions related to economic hedges	$19	$1
Reversal of acquired gain positions related to economic hedges	(2)	—
Net unrealized gains on open positions related to economic hedges	3	205
Total unrealized mark-to-market gains for economic hedging activities	20	206
Reversal of previously recognized unrealized gains on settled positions related to trading activity	(6)	(3)
Net unrealized gains on open positions related to trading activity	13	11
Total unrealized mark-to-market gains for trading activity	7	8
Total unrealized gains	$27	$214

	Three months ended March 31,	
	2019	2018
	(In millions)	
Unrealized gains/(losses) included in operating revenues	$27	$(88)
Unrealized gains included in cost of operations	—	302
Total impact to statement of operations — energy commodities	$27	$214
Total impact to statement of operations — interest rate contracts	$(9)	$12

The reversals of acquired gain or loss positions were valued based upon the forward prices on the acquisition date. The roll-off amounts were offset by realized gains or losses at the settled prices and are reflected in operating revenue or cost of operations during the same period.

For the three months ended March 31, 2019, the $3 million unrealized gain from economic hedge positions was primarily the result of an increase in value of forward power positions due to a decrease in power prices.

For the three months ended March 31, 2018, the $205 million unrealized gains from economic hedge positions was primarily the result of an increase in value of forward purchases of ERCOT heat rate contracts due to ERCOT heat rate expansion.

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 require 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 March 31, 2019 was $17 million. The collateral required for contracts with credit rating contingent features that are in a net liability position as of March 31, 2019 was $23 million. The Company is also a party to certain marginable agreements under which it has a net liability position, but the counterparty has not called for the collateral due, which was $3 million as of March 31, 2019.

See Note 5, Fair Value of Financial Instruments, to this Form 10-Q for discussion regarding concentration of credit risk.

Note 8 — Leases

The Company leases generating facilities, land, office and equipment, railcars, and storefront space at retail stores. Operating leases with an initial term greater than twelve months are recognized as right-of-use assets and lease liabilities in the consolidated balance sheets. The Company recognizes lease expense for all operating leases on a straight-line basis over the lease term. In the future, should another systematic basis become more representative of the pattern in which the lessee expects to consume the remaining economic benefit of the right-of-use asset, the Company will use that basis for lease expense.

The Company considers a contract to be or to contain a lease when both of the following conditions apply: 1) an asset is either explicitly or implicitly identified in the contract and 2) the contract conveys to the Company the right to control the use of the identified asset for a period of time. The Company has the right to control the use of the identified asset when the Company has both the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used throughout the period of use.

Lease payments are typically fixed and payable on a monthly, quarterly, semi-annual or annual basis. Lease payments under certain agreements may escalate over the lease term either by a fixed percentage or a fixed dollar amount. Certain leases may provide for variable lease payments in the form of payments based on usage, a percentage of sales from the location under lease, or index-based (e.g., the U.S. Consumer Price Index) adjustments to lease payments. The Company has no leases which contain residual value guarantees provided by the Company as a lessee.

The Company's leases may grant the Company an option to renew a lease for an additional term(s) or to terminate the lease after a certain period. As part of its transition from the guidance contained in Topic 840 to the updated guidance in Topic 842, the Company elected not to use the practical expedient of using hindsight to determine the lease term and in assessing impairment of the right-of-use assets.

As permitted by Topic 842, the Company made an accounting policy election for all asset classes not to recognize right-of-assets and lease liabilities in the consolidated balance sheets for its short-term leases, which are leases that have a lease term of twelve months or less. For the initial measurement of lease liabilities, the Company uses as the discount rate either the rate implicit in the lease, if known, or its incremental borrowing rate, which is the rate of interest that the Company would have to pay to borrow, on a collateralized basis, over a similar term an amount equal to the payments for the lease.

In transition to Topic 842, the Company elected to apply the effective date transition method as of the January 1, 2019 adoption date. In accordance with this method, the Company's reporting for comparative periods prior to January 1, 2019 presented in the financial statements continues to be in conformity with the guidance in Topic 840. The Company elected the following practical expedients, which allow entities to:

1. not reassess whether any contracts that existed prior to the January 1, 2019 implementation date are or contain leases;
2. not reassess the lease classification for any leases that commenced prior to the January 1, 2019 implementation date, meaning that all commenced capital leases under Topic 840 will be classified as finance leases under Topic 842 and all commenced operating leases under Topic 840 will be classified as operating leases under Topic 842;
3. not reassess initial direct costs for any leases;
4. not reassess whether existing land easements, which were not previously accounted as leases under Topic 840, are or contain leases; and
5. not separate lease and non-lease components for all asset classes, except office space leases and generation facilities leases.

As described in Note 3, Discontinued Operations and Dispositions, upon the close of the South Central Portfolio sale, the Company entered into an agreement to leaseback the Cottonwood facility through May 2025. The lease was accounted for in accordance with ASC 842-40, Sale and Leaseback Transactions, as an operating lease and accordingly, a right-of-use asset and lease liability were established on the lease commencement date and will be amortized through the end of the lease.

Lease Cost:

(In millions)	Three months ended March 31, 2019
Operating lease cost	$ 23
Variable lease cost	1

Sublease income	(4)
Total lease cost	$ 20

Other information:

(In millions)	Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 21
Right-of-use assets obtained in exchange for new operating lease liabilities	214

Lease Term and Discount Rate:	
Weighted-average remaining lease term	In Years
Finance leases	2.8
Operating leases	8.2
Weighted-average discount rate	%
Finance leases	6.5
Operating leases	5.7

As of March 31, 2019, annual payments based on the maturities of NRG's leases are expected to be as follows:

	(In millions)
Remainder of 2019	$ 76
2020	96
2021	86
2022	85
2023	86
Thereafter	370
Total undiscounted lease payments	$ 799
Less: present value adjustment	(196)
Total discounted lease payments	$ 603

Note 9 — Debt and Capital Leases

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

(In millions, except rates)	March 31, 2019	December 31, 2018	March 31, 2019 interest rate %[(a)]
Recourse debt:			
Senior Notes, due 2024	$ 733	$ 733	6.250
Senior Notes, due 2026	1,000	1,000	7.250
Senior Notes, due 2027	1,230	1,230	6.625
Senior Notes, due 2028	821	821	5.750
Convertible Senior Notes, due 2048	575	575	2.750
Term loan facility, due 2023	1,694	1,698	L+1.75
Tax-exempt bonds	466	466	4.125 - 6.00
Subtotal recourse debt	6,519	6,523	
Non-recourse debt:			
Agua Caliente Borrower 1, due 2038	83	86	5.430
Midwest Generation, due 2019	20	48	4.390
Other	34	34	various
Subtotal all non-recourse debt	137	168	
Subtotal long-term debt (including current maturities)	6,656	6,691	
Capital leases	1	1	various
Subtotal long-term debt and capital leases (including current maturities)	6,657	6,692	
Less current maturities	(124)	(72)	
Less debt issuance costs	(69)	(70)	
Discounts	(98)	(101)	
Total long-term debt and capital leases	$ 6,366	$ 6,449	