As filed with the Securities and Exchange Commission on October 9, 1997

Registration No. 333-33397

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NRG ENERGY, INC.
(Exact Name of Registrant as specified in its charter)

DELAWARE	4911	41-1724239
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1221 NICOLLET MALL, SUITE 700
MINNEAPOLIS, MINNESOTA 55403
(612) 373-5300
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

MICHAEL J. YOUNG
CORPORATE SECRETARY
NRG ENERGY, INC.
1221 NICOLLET MALL, SUITE 700
MINNEAPOLIS, MINNESOTA 55403
(612) 373-5300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
STACY J. KANTER, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
919 THIRD AVENUE
NEW YORK, NEW YORK 10022
(212) 735-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed basis or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement

for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER NOTE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
7 1/2% Senior Notes due 2007	$250,000,000	100%	$250,000,000	$75,758(2)

(1) Estimated in accordance with Rule 457 (c) of the Securities Act, solely for the purpose of calculating the registration fee.
(2) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED OCTOBER 9, 1997

PROSPECTUS

GRAPHIC OMITTED

OFFER FOR ALL OUTSTANDING
71/2% SENIOR NOTES DUE 2007
IN EXCHANGE FOR
71/2% SENIOR NOTES DUE 2007
WHICH HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933
OF

NRG ENERGY, INC.

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME, ON , , 1997,
UNLESS EXTENDED

NRG Energy, Inc., a Delaware corporation ("NRG"), hereby offers, upon the terms and subject to the conditions set forth in this Prospectus (as the same may be amended or supplemented from time to time, the "Prospectus") and the accompanying Letter of Transmittal (which together constitute the "Exchange Offer"), to exchange an aggregate principal amount of up to $250,000,000 of 7 1/2% Senior Notes due 2007 which have been registered under the Securities Act of 1933 (the "New Notes") of NRG for a like principal amount of the issued and outstanding 7 1/2% Senior Notes due 2007 (the "Old Notes" and, with the New Notes, the "Notes") of NRG from the holders (the "Holders") thereof. The terms of the New Notes are identical in all material respects to the terms of the Old Notes, except for certain transfer restrictions and registration rights relating to the Old Notes.

The Notes are redeemable at any time, at the option of NRG at a redemption price equal to the principal amount thereof plus accrued interest plus a Make-Whole Premium (as defined herein). See "Description of Notes -- Optional Redemption." Upon a Change of Control (as defined herein), NRG may be required to purchase the Notes at a redemption price equal to 101% of the principal amount thereof plus accrued interest. See "Description of Notes -- Change of Control." The Notes are senior unsecured obligations of NRG, which conducts substantially all of its business through numerous project subsidiaries and project affiliates. As a result, all existing and future liabilities of the direct and indirect subsidiaries and affiliates of NRG will be effectively senior to the Notes. Because substantially all of the operations of NRG are conducted by its project subsidiaries and project affiliates, NRG's cash flow and its ability to service its indebtedness, including its ability to pay the interest on and principal of the Notes when due, are dependent upon cash dividends and distributions or other transfers from its project and other subsidiaries and project affiliates to NRG. As of June 30, 1997, NRG's project subsidiaries and project affiliates had total assets of $8.0 billion, total indebtedness of $4.3 billion and an aggregate debt-to-total capitalization ratio of approximately 54%. See "Risk Factors -- Holding Company Structure." The Indenture under which the Notes will be issued does not restrict the incurrence of additional indebtedness by NRG or its subsidiaries and affiliates.

For each Old Note accepted for exchange, the Holder of such Old Note will receive a New Note having a principal amount equal to that of the surrendered Old Note. The New Notes will bear interest from the most recent date to which interest has been paid on the Old Notes or, if no interest has been paid on the Old Notes, from June 17, 1997. Accordingly, registered Holders of New Notes on the relevant record date for the first interest payment date following the consummation of the Exchange Offer will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from June 17, 1997. Old Notes accepted for exchange will cease to accrue interest from and after the date of consummation of the Exchange Offer. Holders of Old Notes whose Old Notes are accepted for exchange will not receive any payment in respect of accrued interest on such Old Notes.

The New Notes are being offered hereunder in order to satisfy certain obligations of NRG contained in the Registration Rights Agreement, dated as of June 12, 1997 (the "Registration Rights Agreement"), among NRG and the other signatories thereto. Based on interpretations by the staff of the Securities and Exchange Commission (the "Commission") issued to third parties, New Notes issued pursuant to the Exchange Offer in exchange for the Old Notes may be offered for resale, resold and otherwise transferred by Holders thereof (other than any such Holder which is an "affiliate" of NRG within the meaning of Rule 405 under the Securities Act of 1933, as amended (the "Securities Act")), without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such Holders' business and such Holders have no arrangement with any person to participate in the distribution of such New Notes. Each Holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a

distribution of New Notes. If any Holder is an affiliate of NRG or is engaged in or intends to engage in or has any arrangement with any person to participate in the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such Holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, including the delivery of a prospectus which contains the information with respect to any selling holder required by the Securities Act. Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must represent to NRG that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. NRG has agreed that, starting on the Expiration Date (as defined herein) and ending on the close of business on the 90th day following the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

NRG will not receive any proceeds from this Exchange Offer. NRG has agreed to bear the expenses of this Exchange Offer. Tenders of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. In the event NRG terminates the Exchange Offer and does not accept for exchange any Old Notes, NRG will promptly return the Old Notes to the Holders thereof. See "The Exchange Offer."

Prior to the Exchange Offer, there has been no public market for the Old Notes or the New Notes. NRG does not intend to list the New Notes on any securities exchange or to seek approval for quotation through any automated quotation system. There can be no assurance that an active market for the New Notes will develop. To the extent that a market for the New Notes does develop, the New Notes could trade at a discount from their principal amount. See "Risk Factors -- Lack of a Public Market for the Notes."

SEE "RISK FACTORS" BEGINNING ON PAGE 15 FOR A DISCUSSION OF CERTAIN RISKS WHICH HOLDERS WHO TENDER THEIR OLD NOTES SHOULD CONSIDER IN CONNECTION WITH THIS EXCHANGE OFFER.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS , 1997

AVAILABLE INFORMATION

NRG has filed with the Commission a Registration Statement on Form S-1 under the Securities Act with respect to the New Notes offered hereby. As permitted by the rules and regulations of the Commission, this Prospectus omits certain information, exhibits and undertakings contained in the Registration Statement. For further information with respect to NRG and the New Notes offered hereby, reference is made to the Registration Statement, including the exhibits thereto and the financial statements, notes and schedules filed as a part thereof. Upon the effectiveness of the Registration Statement, NRG will become subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Registration Statement (and the exhibits and schedules thereto), as well as the periodic reports and other information filed by NRG with the Commission, may be inspected and copied at the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549

and at the regional offices of the Commission located at 7 World Trade Center, 15th Floor, Suite 1300, New York, New York 10048 and Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661-2511. Copies of such materials may be obtained from the Public Reference Section of the Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and its public reference facilities in New York, New York and Chicago, Illinois at the prescribed rates. Such information may also be accessed electronically by means of the Commission's home page on the Internet (http://www.sec.gov). Any statements contained in this Prospectus as to the contents of any contract or document filed as an exhibit to the Registration Statement are not necessarily complete, and each such statement is qualified in all respects by such reference.

In addition, NRG has agreed to furnish or cause to be furnished to registered holders (and, at the request thereof, owners of beneficial interests in the Notes) annual consolidated financial statements of NRG prepared in accordance with United States generally accepted accounting principles ("GAAP") (together with notes thereto, a report thereon by an independent accountant of established national reputation and a management's discussion and analysis of financial condition and results of operations), such statements to be so furnished within 120 days after the end of the fiscal year covered thereby. In addition, NRG will furnish or cause to be furnished to registered holders (and, at the request thereof owners of beneficial interests in the Notes) unaudited condensed consolidated balance sheets and statements of income and cash flows of NRG for each of the first three fiscal quarters of each fiscal year and the corresponding quarter of the prior year, such statements to be so furnished within 90 days after the end of the fiscal quarter covered thereby.

SUMMARY

The following summary is qualified in its entirety by and should be read in conjunction with the more detailed information and the consolidated financial statements of NRG, including the notes thereto, appearing elsewhere in this Prospectus. Unless the context otherwise requires, references herein to NRG mean NRG Energy, Inc. and its direct and indirect subsidiaries. The subsidiaries of NRG that are engaged in the acquisition, development and operation of, and ownership of interests in, power generation and thermal energy production and transmission facilities and other facilities described herein are sometimes referred to individually as a "project subsidiary" and collectively as NRG's "project subsidiaries." In circumstances in which NRG owns less than a majority of the interests in the joint venture, partnership or other entity that owns or leases a facility, directly or indirectly, such joint venture, partnership or other entity is referred to individually as a "project affiliate" and collectively as the "project affiliates." References herein to ownership by NRG or one of its project subsidiaries of interests in a project or facility refer to ownership of interests in such project affiliates.

THE COMPANY

NRG is one of the leading participants in the independent power generation industry. Established in 1989 and wholly-owned by Northern States Power Company ("NSP"), NRG is principally engaged in the acquisition, development and operation of, and ownership of interests in, independent power production and cogeneration facilities, thermal energy production and transmission facilities and resource recovery facilities. The power generation facilities in which NRG had interests as of October 1, 1997 (including those under construction) had a total design capacity of 7,193 megawatts ("MW"), of which NRG had or will have operational responsibility for 4,750 MW and net ownership of or leasehold interests in 2,201 MW. In addition, NRG has substantial interests in district heating and cooling systems and steam generation and transmission operations; at December 31, 1996, these thermal businesses had a steam capacity of approximately 3,550 million British thermal units ("mmBtus"). NRG's refuse-derived fuel ("RDF") plants processed

more than 808,000 tons of municipal solid waste into approximately 644,000 tons of RDF in 1996.

NRG has experienced significant growth in the last three years, expanding from 33 MW net ownership as of December 31, 1993 to 2,201 MW net ownership as of October 1, 1997. This growth resulted primarily from a number of domestic and international investments and acquisitions, principally the Gladstone Power Station in Australia ("GPS" or "Gladstone"), the Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG") and Schkopau ("Schkopau") Projects in Germany, the Minneapolis Energy Center ("MEC") and NRG Generating (U.S.) Inc. ("NRGG"), all as described below. NRG's total operating revenues and equity in earnings of projects increased from $91.1 million and $27.2 million, respectively, in 1994 to $104.5 million and $32.8 million, respectively, in 1996. In evaluating and acquiring its project interests, NRG has a flexible, multi-disciplinary team approach that draws on its facility operations and engineering expertise, fuel procurement and management skills, environmental experience, labor and government relations expertise and legal and financial skills.

As of October 1, 1997, NRG had direct and indirect interests in 27 power generation facilities worldwide (not including those facilities in which its wholly-owned subsidiary, NEO Corporation ("NEO"), has an interest), including projects under construction. Of these facilities, 12 are located in the United States (648 MW design capacity, with NRG holding 243 MW net ownership), 4 are located in Germany (1,160 MW design capacity, with NRG holding 267 MW net ownership), 4 are located in Australia (4,065 MW design capacity, with NRG holding 1,245 MW net ownership), two are located in Colombia (299 MW design capacity, with NRG holding 16 MW net ownership), and one is located in each of the Czech Republic (382 MW design capacity, with NRG holding 214 MW net ownership), Jamaica (74 MW design capacity, with NRG holding 7 MW net ownership), Peru (155 MW design capacity, with NRG holding 5.5 MW net ownership), Honduras (80 MW design capacity, with NRG holding 6 MW net ownership), and Bolivia (218 MW design capacity with NRG holding 126 MW net ownership). In December 1996, NRG and Nordic Power Invest AB of Sweden acquired 96.6% of the outstanding common shares of Compania

Boliviana de Energia Electrica SA -- Bolivian Power Company Limited ("COBEE"), the second largest electric utility company in Bolivia, which will have a design capacity of 218 MW after a 65 MW expansion in 1998. In addition, through its wholly-owned project subsidiary, NEO, NRG had interests on October 1, 1997 in 39 small hydroelectric and landfill gas-fired power generation facilities located in the United States with total design capacity of 113 MW, of which NRG has net ownership of 55 MW.

In May 1997, NRG consummated the largest acquisition in its history, acquiring a 25.37% interest in the assets of a 2,000 MW brown coal fired thermal power station and adjacent coal mine located in Victoria, Australia and known as Loy Yang A. The State of Victoria sold the Loy Yang A assets as part of its privatization program to a partnership formed by affiliates of NRG and of CMS Generation (a wholly-owned subsidiary of CMS Enterprises), together with Horizon Energy Investment Limited (an investment vehicle of Macquarie Bank), for a total price of approximately AUS$4.7 billion (or US$3.7 billion as of May 12, 1997). While most of the purchase price was raised through project-financed loans and leveraged leases that are non-recourse to the sponsors, NRG's equity investment was approximately US$257 million. NRG funded its investment and related financing costs from a bridge loan arranged by Salomon Loan Fund Inc (the "Bridge Financing"), together with an equity investment by NSP and cash on hand.

In June 1997, NRG closed the financing for the refurbishment and expansion of the Energy Center Kladno plant in Kladno, the Czech Republic ("Kladno"). NRG owns a 34% interest in the existing 28 MW coal-fired project, which also

supplies thermal energy. Non-recourse project financing was provided by a consortium of Czech banks, the International Finance Corporation, Nissho Iwai and ABB. This financing will fund the refurbishment of the existing facility as well as the construction of a new 354 MW expansion project. NRG holds a 57.85% interest in the expansion project, and El Paso Energy International and Stredoceska Energeticka ("STE"), the regional Czech electric distribution company, hold the balance. NRG's total equity commitment in this project is approximately $53 million.

In April 1996, NRG acquired a 41.86% equity interest in O'Brien Environmental Energy, Inc. ("O'Brien"), which emerged from bankruptcy and was renamed NRG Generating (U.S.) Inc. ("NRGG"). NRG holds 41.86% of the common stock of NRGG, and NRG employees serve as NRG's designees on the board of directors of NRGG. The remaining 58.14% of the common stock of NRGG remained with the then-existing equity holders in O'Brien and is now publicly traded. NRGG is a public company and its shares are listed in the NASDAQ small cap issues under the symbol "NRGG." NRGG has interests in three domestic operating projects with an aggregate capacity of approximately 196 MW. These are: (i) sole ownership of the 52 MW Newark Boxboard Project, a gas-fired cogeneration facility that sells electricity to Jersey Central Power and Light Company ("JCP&L") and steam to Newark Boxboard Company; (ii) sole ownership of the 122 MW E.I. du Pont Parlin Project, a gas-fired cogeneration facility that sells electricity to JCP&L and steam to E.I. du Pont de Nemours and Company; and (iii) an 83% interest in a 22 MW standby/peak sharing facility which provides electricity and standby capabilities for the Philadelphia Cogen. In addition, NRGG has a 33.33% interest in the 150 MW Grays Ferry Project, a gas-fired cogeneration project which is under construction in Philadelphia, Pennsylvania.

In connection with the financing of the Grays Ferry Project, NRGG granted NRG an option to purchase 396,255 shares of NRGG common stock upon certain terms and conditions. On August 28, NRG exercised such option and, upon NRGG Board approval, the 396,255 shares will be issued to NRG. NRG will then be the owner of 45.21% of the common stock of NRGG.

In addition to power generation, NRG has interests in four district heating and cooling systems, located in Minneapolis, San Francisco, Pittsburgh and San Diego, that provide steam for heating and chilled water for cooling. NRG acquired the San Diego facility in June 1997. NRG also owns or operates two steam transmission facilities and two resource recovery/RDF facilities, all located in Minnesota.

At any time, NRG has a number of projects under consideration or in development and is in various stages of negotiations regarding other potential projects in the United States and abroad. NRG is currently developing a number of significant domestic and international projects. These include a 45%

interest in the West Java Project, a 400 MW coal-fired project in Indonesia in partnership with Ansaldo Energia and P.T. Kiani Metra; a 27.75% interest in the 390 MW Alto Cachapoal greenfield hydroelectric complex in central Chile in partnership with Nordic Power Invest AB and Construtora Andrade Gutierrez S.A.; and a 50% interest in the Enfield Energy Centre, a 350 MW power project under development in Enfield, England. In addition, NRG and two partners have filed a plan in federal bankruptcy court to acquire the fossil-fueled generating assets of Cajun Electric Power Cooperative of Baton Rouge, Louisiana ("Cajun"). Also, in 1996 NRG purchased, at a substantial discount, the senior secured debt of Mid-Continent Power Company, Inc. ("MCPC"). On June 18, 1997, MCPC filed a Chapter 11 petition in federal bankruptcy court in Tulsa, Oklahoma and concurrently filed a plan of reorganization proposing to transfer ownership of all of MCPC's assets to NRG in exchange for forgiveness of debt. Because of the many complexities inherent in the development, financing and acquisition of such projects, there can be no assurance that any of these transactions will be consummated.

NRG's headquarters and principal executive offices are located at 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota 55403. Its telephone number is (612) 373-5300.

STRATEGY

NRG intends to continue to grow through a combination of acquisitions and greenfield development of power generation and thermal energy production and transmission facilities and related assets in the United States and abroad. In the United States, NRG's near-term focus will be primarily on the acquisition of existing power generation capacity and thermal energy production and transmission facilities, particularly in situations in which its expertise can be applied to improve the operating and financial performance of the facilities. NRG is also working with several industrial companies to develop energy projects that would provide both electricity and steam for their production facilities. In addition, to the extent that the replacement of aging power generating capacity or growth in demand creates the need for new power generation facilities in the United States, NRG intends to pursue opportunities to participate in the development of such facilities. NRG is also studying the opportunities that may be created by the current restructuring of the domestic electric utility industry, particularly the divestiture by some utility companies of their generating assets.

In the international market, NRG will continue to pursue development and acquisition opportunities in those countries in which it believes that the legal, political and economic environment is conducive to increased foreign investment. NRG intends to continue to capitalize on opportunities created by the privatization of existing government-owned power generating capacity. In addition, due to the significant existing demand for new power generating capacity in the international market, NRG intends to engage in the development of international "greenfield" projects, which are projects that are developed, permitted, financed and constructed by the developer.

Although NRG exercises flexibility in structuring its investments in projects, NRG's goal is to own a 20% to 50% equity interest in, and to have operating control or influence over, the projects in which it invests. Where appropriate, NRG will include a local or host country partner, in order to enhance its knowledge of the region or country and to leverage its human and financial resources. NRG currently holds no interest in, and has no present intention of investing in, any nuclear generating facility.

As part of NRG's global tax strategy, NRG intends to maintain its earnings from foreign investments offshore, for permanent reinvestment in other foreign projects. For this reason, NRG intends to utilize the cash in its domestic operations to make the payments with respect to the Notes. This cash is expected to include payments of interest and principal to be received from its wholly-owned Dutch subsidiary, NRGenerating International BV ("NRGBV"), with respect to loans from NRG to that company.

THE EXCHANGE OFFER

The Exchange Offer	NRG is offering to exchange up to $250,000,000 aggregate principal amount of 7-1/2% Senior Notes due 2007 (the "New Notes") for a like principal amount of its 7-1/2% Senior Notes due 2007 (the "Old Notes" and, collectively with the New Notes, the "Notes") that are properly tendered and accepted. The terms of the New Notes and the Old Notes are identical in all material respects, except for certain transfer restrictions and registration rights relating to the Old Notes described below under " --Summary Description of the New

	Notes."
Tenders; Expiration Date; Withdrawal	The Exchange Offer will expire at 5:00 p.m., New York City time, on , 1997, or such later date and time to which it is extended. The tender of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. Any Old Note not accepted for exchange for any reason will be returned without expense to the tendering Holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer. See "The Exchange Offer -- Terms of the Exchange Offer; Period for Tendering Old Notes," and "Withdrawal of Tenders."
Procedures for Tendering Old Notes	Certain brokers, dealers, commercial banks, trust companies and other nominees who hold Old Notes through the Depositary Trust Company (the "Book-Entry Transfer Facility") must effect tenders by book-entry through the Book-Entry Transfer Facility's automated tender offer program ("ATOP"). Tendering Holders of Old Notes wishing to accept the Exchange Offer must complete, sign and date the Letter of Transmittal, or a facsimile thereof, in accordance with the instructions contained therein, and mail or otherwise deliver such Letter of Transmittal, or such facsimile together with either certificates for such Old Notes or, if tendering through ATOP, a Book-Entry Confirmation (as defined herein) of such Old Notes into the Book-Entry Transfer Facility, if such procedure is available, and any other required documentation to the exchange agent (the "Exchange Agent") at the address set forth herein. Tendering holders of Old Notes that use ATOP will, by so doing, acknowledge that they are bound by the terms of the Letter of Transmittal. See "The Exchange Offer--Book-Entry Transfer." By executing the Letter of Transmittal, each Holder will represent to NRG, among other things, that (i) the New Notes acquired pursuant to the Exchange Offer by the Holder and any other person are being obtained in the ordinary course of business of the person receiving such New Notes, (ii) neither the Holder nor such other person is participating in, intends to participate in or has an arrangement or understanding with any person to participate in the distribution of such New Notes and (iii) neither the Holder nor such other person is an "affiliate," as defined under Rule 405 of the Securities Act, of NRG. Each broker-dealer that

	receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker or dealer as a

	result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker or dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. See "The Exchange Offer -- Procedures for Tendering Old Notes" and "Plan of Distribution."
Special Procedures for Beneficial Owners	Any beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact such registered Holder promptly and instruct such registered Holder to tender on such beneficial owner's behalf. If such beneficial owner wishes to tender on such owner's behalf, such owner must, prior to completing and executing the Letter of Transmittal and delivering its Old Notes, either make appropriate arrangements to register ownership of the Old Notes in such owner's name or obtain a properly completed bond power from the registered Holder. The transfer of registered ownership may take considerable time. See "The Exchange Offer -- Procedures for Tendering Old Notes."
Guaranteed Delivery Procedures	Holders of Old Notes who wish to tender their Old Notes and whose Old Notes are not immediately available or who can not deliver their Old Notes or any other documents required by the Letter of Transmittal to the Exchange Agent must tender their Old Notes according to the guaranteed delivery procedures set forth in "The Exchange Offer--Guaranteed Delivery Procedures."
Federal Income Tax Consequences	The exchange pursuant to the Exchange Offer should not result in any income, gain or loss to the Holders or NRG for federal income tax purposes. See "Certain Federal Income Tax Considerations."
Use of Proceeds	NRG will not receive any proceeds from this Exchange Offer.
Exchange Agent	Norwest Bank Minnesota, National Association is serving as the exchange agent (the "Exchange Agent") in connection with the Exchange Offer.

CONSEQUENCES OF EXCHANGING OLD NOTES

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old

Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. NRG does not currently anticipate that it will register Old Notes under the Securities Act. See "Description of Notes -- Registration Rights." Based on interpretations by the staff of the Commission issued to third parties, New Notes issued pursuant to the Exchange Offer in exchange for Old Notes may be offered for resale, resold or otherwise transferred by Holders thereof (other than any such Holder which is an "affiliate" of NRG within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such Holders' business and such Holders have no arrangement with any person to participate in the distribution of such New Notes. Each Holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of New Notes. If any Holder is an affiliate of NRG or is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such Holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. NRG has agreed that, starting on the Expiration Date and ending on the close of business on the 90th day following the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution." However, to comply with the securities laws of certain jurisdictions, if applicable, the New Notes may not be offered or sold unless they have been registered or qualified for sale in such jurisdictions or an exemption from registration or qualification is available and is complied with. NRG does not currently intend to register or qualify the sale of the New Notes in any such jurisdictions. See "The Exchange Offer -- Consequences of Failure to Exchange Old Notes."

SUMMARY DESCRIPTION OF THE NEW NOTES

The terms of the New Notes and the Old Notes are identical in all material respects, except for certain transfer restrictions and registration rights relating to the Old Notes. The New Notes will bear interest from the most recent date to which interest has been paid on the Old Notes or, if no interest has been paid on the Old Notes, from June 17, 1997. Accordingly, registered Holders of New Notes on the relevant record date for the first interest payment date following the consummation of the Exchange Offer will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from June 17, 1997. Old Notes accepted for exchange will cease to accrue interest from and after the date of consummation of the Exchange Offer. Holders of Old Notes whose Old Notes are accepted for exchange will not receive any payment in respect of interest on such Old Notes otherwise payable on any interest payment date the record date for which occurs on or after consummation of the Exchange Offer. In the event of a registration default under the Registration Rights Agreement, NRG will pay special interest ("Special Interest") to each Holder of Transfer Restricted Securities (as defined herein). See "Description of Notes -- Special Interest."

Notes Offered	Up to $250,000,000 principal amount of 7-1/2% Senior Notes due 2007.

Maturity Date	June 15, 2007.
Interest Payment Dates	June 15 and December 15, commencing December 15, 1997.
Ranking	The New Notes will be senior unsecured obligations of NRG and will rank pari passu with all other senior unsecured indebtedness of NRG. See "Description of Notes." All existing and future liabilities of the direct and indirect subsidiaries and affiliates of NRG will be effectively senior to the Notes.
Ratings	The Old Notes have been assigned ratings of "BBB-" by Standard & Poor's Ratings Group and "Baa3" by Moody's Investors Service, Inc. NRG expects that the New Notes would be assigned the same ratings as the Old Notes. See "Ratings."
Optional Redemption	The New Notes may be redeemed at the option of NRG at any time, in whole or in part, on not less than 30 nor more than 60 days notice, at a redemption price equal to the principal amount thereof plus accrued interest plus a Make-Whole Premium. See "Description of Notes -- Optional Redemption."
Sinking Fund	None.
Change of Control	Upon a Change of Control, each holder of New Notes will have the right, subject to certain conditions, to require NRG to repurchase such holder's New Notes, in whole or in part, at 101% of the principal amount thereof, plus accrued interest, if any, to the date of purchase in accordance with the procedures set forth in the Indenture pursuant to which the New Notes will be issued (the "Indenture"). A Change of Control will not be deemed to have occurred if, after giving effect thereto, the Senior Notes are rated BBB-or better by Standard & Poor's

	Ratings Group and Baa3 or better by Moody's Investors Service, Inc. See "Description of Notes -- Change of Control."
Exchange Offer; Registration Rights	Holders of New Notes (other than as set forth below) are not entitled to any registration rights with respect to the New Notes. Pursuant to the Registration Rights Agreement, NRG agreed, for the benefit of the Holders of Old Notes, to file an Exchange Offer Registration Statement (as defined). The Registration Statement of which this Prospectus is a part constitutes the Exchange Offer Registration Statement. Under certain circumstances, certain Holders

	of Notes (including Holders who may not participate in the Exchange Offer or who may not freely resell New Notes received in the Exchange Offer) may require NRG to file, and cause to become effective, a shelf registration statement under the Securities Act, which would cover resales of Notes by such Holders. See "Description of Notes -- Registration Rights."
Use of Proceeds	NRG will not receive any proceeds from this Exchange Offer. The net proceeds to NRG from the offering of the Old Notes (the "Offering"), after deducting discounts and expenses, were approximately $246.0 million. NRG used such net proceeds to repay outstanding debt under the Bridge Financing and for other general corporate purposes. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

RISK FACTORS

Holders of the Old Notes should consider carefully the information set forth under the caption "Risk Factors" and all other information set forth in this Prospectus before making a decision to tender their Old Notes in the Exchange Offer.

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as of December 31, 1993, 1994, 1995 and 1996, and for the years then ended, have been derived from NRG's audited consolidated financial statements. The summary consolidated financial data set forth below as of June 30, 1996 and 1997, and for the six-month periods then ended, and as of December 31, 1992 and for the year then ended, have been derived from NRG's unaudited consolidated financial statements. Certain financial information for the years ended December 31, 1993 and 1994 have been reclassified to conform to the financial presentation for the year ended December 31, 1995. Interim results and the results for 1992, in the opinion of management of NRG, include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information for such periods; however, such interim results are not necessarily indicative of the results that may be expected for any other interim period or for a full year. The following data should be read in conjunction with the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

CONSOLIDATED STATEMENTS OF INCOME DATA:

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(IN THOUSANDS)						
OPERATING REVENUES							
Revenues from wholly-owned operations(1)	$39,647	$48,529	$63,970	$64,180	$ 71,649	$35,367	$ 42,685
Equity in operating earnings of unconsolidated affiliates(2)(3)	1,321	2,695	27,155	23,639	32,815	11,914	13,846
Total operating revenues	40,968	51,224	91,125	87,819	104,464	47,281	56,531

OPERATING COSTS AND EXPENSES							
Cost of operations--wholly-owned operations	22,870	27,122	34,861	32,535	36,562	18,104	22,696
Depreciation and amortization	5,060	6,475	8,675	8,283	8,378	4,161	4,544
General, administrative, and development	14,930	11,448	19,993	34,647	39,248	18,280	18,039
Total operating costs and expenses	42,860	45,045	63,529	75,465	84,188	40,545	45,279
OPERATING INCOME (LOSS)	(1,892)	6,179	27,596	12,354	20,276	6,736	11,252
OTHER INCOME (EXPENSE)							
Equity in gain from project termination settlements(4)	--	--	9,685	29,850	--	--	--
Other income (expense), net	(1,753)	1,028	1,411	4,896	9,477	4,255	6,267
Interest expense	(1,662)	(2,679)	(6,682)	(7,089)	(15,430)	(7,277)	(11,182)
Total other income (expense)	(3,415)	(1,651)	4,414	27,657	(5,953)	(3,022)	(4,915)
INCOME (LOSS) BEFORE INCOME TAXES	(5,307)	4,528	32,010	40,011	14,323	3,714	6,337
INCOME (BENEFIT) TAXES(5)	(2,187)	1,905	2,472	8,810	(5,655)	(2,793)	(5,652)
NET INCOME (LOSS)	$(3,120)	$ 2,623	$29,538	$31,201	$ 19,978	$ 6,507	$ 11,989

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(1) All of these revenues are from 100% owned operations. In accordance with its strategy described herein, when NRG does not own 100% of a project, it owns 50% or less in all cases except COBEE and Kladno.

(2) NRG accounts for its investments in projects where ownership is between 20% and 50%, and where there is no effective and legal control, using the equity method of accounting; COBEE and Kladno are also accounted for using the equity method of accounting even though NRG currently owns more than a 50% interest in both projects because NRG intends to sell down below the 50% level. Equity in earnings of unconsolidated project affiliates includes NRG's proportionate share of all net income or losses attributable to project investments accounted for using the equity method.

(3) Includes pretax charges of $5.0 million, $5.0 million and $1.5 million in the years 1994, 1995 and 1996, respectively, to write-down the carrying value of certain energy projects.

(4) In 1994, NRG and its partner in the Michigan Cogeneration Partners Limited Partnership agreed to terminate a power sales contract with Consumers Power Company. The contract related to a 65 MW cogeneration facility being developed in Michigan. Due to the agreement to terminate the contract, NRG recorded a one-time pre tax-gain of $9.7 million in 1994.

Equity in gain from project termination settlements in 1995 included a one-time pre-tax gain of $29.9 million related to the settlement and termination of the San Joaquin Valley power purchase agreements with PG&E. See "Business--Independent Power Production and Cogeneration--Domestic Projects--San Joaquin."

(5) NRG is included in the consolidated federal income tax and state franchise tax returns of NSP. NRG calculates its tax position on a separate company basis under a tax sharing agreement with NSP and receives payment from NSP for tax benefits and pays NSP for tax liabilities.

CONSOLIDATED BALANCE SHEET DATA:

	AS OF DECEMBER 31,					AS OF JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(IN THOUSANDS)						
Net property, plant and equipment	$46,694	$108,934	$107,634	$111,919	$129,649	$113,389	$141,059
Net equity investments in projects	16,400	20,046	164,863	221,129	365,749	251,107	638,780

Long-term debt, including current maturities.....	10,499	93,451(1)	93,339(1)	90,034(1)	212,141(1)	213,888(1)	463,614(1)
Stockholder's equity	40,267	97,722	234,722	319,764	421,914	352,199	496,926

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(1) Includes debt relating to MEC and NRG San Diego, including current maturities, which is non-recourse to NRG. As of June 30, 1997 this debt was $78.5 million.

OTHER DATA (UNAUDITED):

	AS OF AND FOR THE YEAR ENDED DECEMBER 31,					AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(DOLLARS IN THOUSANDS)						
NRG's net power generating capacity(MW)	33	33	992	999	1,326	1,213	2,080
NRG's net thermal energy generating capacity:							
mmBtus per hour	695	1,865	1,961	2,318	2,654	2,654	2,693
MWt equivalent	204	547	575	679	822	822	833
Consolidated EBITDA (1)	$1,415	$13,682	$47,367	$55,383	$38,131	$15,152	$22,063
Consolidated interest expense .	$1,662	$ 2,679	$ 6,682	$ 7,089	$15,430	$ 7,277	$11,182
Consolidated interest expense coverage ratio (2)	0.85x	5.11x	7.09x	7.81x	2.47x	2.08x	1.97x
Consolidated debt service (3)	$2,562	$ 4,272	$ 9,169	$10,394	$18,323	$ 8,423	$12,409
Consolidated debt service coverage ratio (4)	0.55x	3.20x	5.17x	5.33x	2.08x	1.80x	1.78x
Consolidated ratio of earnings to fixed charges(5).....	(6)	2.32x	2.98x	1.56x(8)	1.75x(9)	3.52x	(7)

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(1) EBITDA equals the sum of income (loss) before income taxes, interest expense (net of capitalized interest) and depreciation and amortization expense. Management believes that some investors consider EBITDA an accepted indicator of a company's ability to service debt. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as a substitute for net income, cash flows from operations or other income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity. In addition, EBITDA may not be comparable to similarly titled measures presented by other companies and could be misleading unless all companies and analysts calculate them in the same fashion. See Statements of Cash Flows in the Consolidated Financial Statements included elsewhere in this Prospectus.

(2) The interest expense coverage ratio equals EBITDA divided by interest expense.

(3) Debt service consists of interest expense and principal payments on long-term debt.

(4) The debt service coverage ratio equals EBITDA divided by debt service.

(5) The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. For this purpose "earnings" means income (loss) before income taxes less undistributed equity in operating earnings of unconsolidated affiliates less equity in gain from project termination settlements plus cash distributions from project termination settlements plus fixed charges. "Fixed charges" means interest expense plus interest capitalized plus amortization of debt issuance costs plus a reasonable approximation of the interest factor of rental expense.

(6) Due primarily to the loss incurred in 1992, NRG was unable to fully cover fixed charges. Earnings did not cover fixed charges by $5,940.

(7) Due primarily to undistributed equity earnings exceeding income before income taxes, NRG was unable to fully cover fixed charges. Earnings did not cover fixed charges by $6,620.

(8) The 1995 ratio of earnings to fixed charges calculation includes the effect of an equity gain and cash distribution from a project termination settlement. If the project termination had not occurred, NRG would have been unable to fully cover fixed charges and earnings would not have covered fixed charges by $9,913.

(9) The 1996 ratio of earnings to fixed charges calculation includes the effect of a cash distribution from a 1995 project termination settlement. If the project termination had not occurred, NRG would have been unable to fully cover fixed charges and earnings would not have covered fixed charges by $3,504 for the year ended December 31, 1996.

SUMMARY PRO FORMA CONDENSED FINANCIAL DATA

The unaudited pro forma condensed financial data set forth below give effect to (i) the acquisition by NRG of a 25.37% equity interest in Loy Yang A and the financing thereof and (ii) the offering of the Old Notes (the "Offering"). The pro forma statement of income data for the year ended December 31, 1996 and the six months ended June 30, 1997 give effect to such transactions as if they had occurred at the beginning of the periods presented. As the Loy Yang acquisition and the Offering were consummated prior to June 30, 1997, no pro forma balance sheet data is provided. The pro forma condensed financial data do not purport to be indicative of the combined financial position or results of operations of future periods or indicative of the results that would have occurred had the transactions referred to above been consummated on the dates indicated. The following data should be read in conjunction with, and are qualified in their entirety by, the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

FOR THE YEAR ENDED DECEMBER 31, 1996

	HISTORICAL	ADJUSTMENTS	PRO FORMA
		(IN THOUSANDS)	
STATEMENT OF INCOME DATA:			
Revenues from wholly-owned operations	$ 71,649	--	$ 71,649
Equity in earnings of unconsolidated affiliates	32,815	$ 9,460 (1)	42,275
Operating costs and expenses	(84,188)	--	(84,188)
Other income (expense)	9,477	--	9,477
Interest expense	(15,430)	(18,750) (2)	(34,180)
Income taxes	5,655	4,373 (3)	10,028
Net Income	$ 19,978	$ (4,917)	$ 15,061

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(1) Represents estimated equity earnings from Loy Yang A for twelve months based upon historical data adjusted for differences due to acquisition accounting primarily depreciation charges, finance charges and adjustments to income tax expense.

(2) Represents accrued interest on $250 million principal amount of the

Old Notes for twelve months at a rate of 7.5% per annum.

(3) Net tax benefit derived from interest expense on the Old Notes.

AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997

	HISTORICAL	ADJUSTMENTS	PRO FORMA
		(IN THOUSANDS)	
STATEMENT OF INCOME DATA:			
Revenues from wholly-owned operations	$ 42,685	$ --	$ 42,685
Equity in earnings of unconsolidated affiliates	13,846	410 (1)	14,256
Operating costs and expenses	(45,279)	--	(45,279)
Other income and (expense)	6,267	--	6,267
Interest expense	(11,182)	(6,883)(2)	(18,065)
Income taxes	5,652	1,605 (3)	7,257
Net Income	$ 11,989	$(4,868)	$ 7,121

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(1) Represents estimated equity earnings from Loy Yang A until May 14, 1997, based upon historical data adjusted for differences due to acquisition accounting primarily depreciation charges, finance charges and adjustments to income tax expense. Equity earnings of Loy Yang A from May 15 until June 30 were $1,061. This amount is summarized in the Historical column of Equity in earnings of unconsolidated affiliates.

(2) Represents interest expense on $250 million principal amount of the Old Notes until May 14 at a rate of 7.5% per annum. Interest of $2,414 on the Old Notes from May 15 until June 30 is in the Historical column.

(3) Net tax benefit derived from interest expense on the Old Notes.

RISK FACTORS

Holders of Old Notes should consider carefully the following risk factors as well as the other information contained in this Prospectus in evaluating an investment in the New Notes, although the risk factors set forth below (other than "--Consequences of Failure to Exchange Old Notes") are generally applicable to the Old Notes as well as the New Notes.

RISKS INVOLVED IN MAKING MINORITY INVESTMENTS IN PROJECTS

NRG conducts its business primarily through direct and indirect subsidiaries and joint ventures. Most of NRG's current project investments consist of minority interests in project affiliates (i.e., where NRG beneficially owns 50% or less of the ownership interests). A substantial portion of future investments in projects also may take the form of minority interests. See "Business -- Strategy." As a result, NRG's ability to control the development, construction, acquisition or operation of such projects may be limited. The Indenture does not contain any limitations on the ability of NRG to make minority investments.

Although NRG seeks to exert a degree of influence with respect to the management and operation of projects in which it is a minority investor by negotiating to receive certain limited governance rights (such as rights to veto significant actions or to obtain positions on management committees), NRG may not always succeed in such negotiations. See "Business -- Operating Arrangements." NRG may be dependent on its co-venturers to construct and operate such projects. There can be no assurance that such co-venturers would have the same level of experience, technical expertise, human resources management and other attributes that NRG possesses. Any such co-venturer may have conflicts of interest, including those relating to its status as a provider of goods or services to the project. The approval of co-venturers also may be required for distributions of funds from projects to NRG.

UNCERTAINTY OF ACCESS TO CAPITAL FOR FUTURE PROJECTS

Any projects that NRG develops in the future and any projects that it may seek to acquire generally will require substantial capital investment. Continued access to debt capital from outside sources on acceptable terms is necessary to assure the success of future projects and acquisitions. NRG's ability to arrange financing on a substantially non-recourse basis and the costs of such capital are dependent on numerous factors, including general economic and capital market conditions, credit availability from banks and other financial institutions, investor confidence in NRG, its partners and in the local independent power market, the success of current projects, the perceived quality of new projects and provisions of tax and securities laws that are conducive to raising capital in this manner. In order to access capital on a substantially non-recourse basis in the future, NRG may have to make larger equity investments in, or provide more financial support for, its project subsidiaries. To date, NRG's equity capital for its projects has been provided by equity contributions from NSP and, to a lesser extent, internally-generated cash flow from its projects. There can be no assurance that NRG will be successful in structuring the financing for its projects on a substantially non-recourse basis or that NRG will obtain sufficient additional equity capital from NSP, project cash flow or additional borrowings by NRG to enable it to fund the equity commitments required for future projects.

CONSEQUENCES OF EXCHANGING OR FAILING TO EXCHANGE OLD NOTES

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. NRG does not currently anticipate that it will register Old Notes under the Securities Act. See "Description of Notes -- Registration Rights." Based on interpretations by the staff of the Commission issued to third parties, New Notes issued pursuant to the Exchange Offer in exchange for Old Notes may be offered for resale, resold or otherwise transferred by Holders thereof (other than any such Holder which is an "affiliate" of NRG within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such Holders' business and such Holders have no arrangement with any person to participate in the distribution of such New Notes. Each Holder, other than a broker-dealer, must acknowledge that it is not engaged in, and

does not intend to engage in, a distribution of New Notes. If any Holder is an affiliate of NRG or is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the New

Notes to be acquired pursuant to the Exchange Offer, such Holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. NRG has agreed that, starting on the Expiration Date and ending on the close of business on the 90th day following the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution." However, to comply with the securities laws of certain jurisdictions, if applicable, the New Notes may not be offered or sold unless they have been registered or qualified for sale in such jurisdictions or an exemption from registration or qualification is available and is complied with. NRG does not currently intend to register or qualify the sale of the New Notes in any such jurisdiction. See "The Exchange Offer -- Consequences of Failure to Exchange Old Notes."

HOLDING COMPANY STRUCTURE; ABILITY TO SERVICE INDEBTEDNESS

The Notes will be exclusively the obligations of NRG and not of any of its project subsidiaries or project affiliates. As a result, all existing and future liabilities of the direct and indirect subsidiaries and affiliates of NRG will be effectively senior to the Notes. Because substantially all of the operations of NRG are conducted by its project subsidiaries and project affiliates, NRG's cash flow and its ability to service its indebtedness, including its ability to pay the interest on and principal of the Notes when due, are dependent upon cash dividends and distributions or other transfers from its project and other subsidiaries and project affiliates to NRG. As of June 30, 1997, NRG's project subsidiaries and project affiliates had total assets of $8.0 billion, total indebtedness of $4.3 billion and an aggregate debt-to-total capitalization ratio of approximately 54%. The debt agreements of NRG's project and other subsidiaries and project affiliates generally restrict their ability to pay dividends, make distributions or otherwise transfer funds to NRG. The restrictions in such agreements generally require that, prior to and after giving effect to the payment of dividends, distributions or other transfers, (i) such subsidiaries or project affiliates meet certain financial performance or coverage ratios, (ii) no default or event of default shall have occurred, and (iii) the subsidiary or project affiliate proposing to pay the dividend, distribution or other transfer must provide for the payment of other current or prospective obligations, including operating expenses, debt service and reserves. See "Business -- Project Financing." NRG's subsidiaries and project affiliates are separate and distinct legal entities that have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available therefor, whether by dividends, loans or other payments, and do not guarantee the payment of interest on, or principal of, the Notes. NRG owns a minority interest in most of its international and domestic projects, and therefore is unable unilaterally to cause dividends or distributions to be made to NRG from these operations.

Any right of NRG to receive any assets of any of its subsidiaries or project affiliates upon any liquidation or reorganization of such subsidiaries or project affiliates (and the consequent right of holders of the Senior Notes to participate in the distribution of, or to realize proceeds from, those assets) will be effectively subordinated to the claims of any such subsidiary's or project affiliate's creditors (including trade creditors and holders of debt issued by such subsidiary or project affiliate).

The Indenture imposes no limitations on the ability of subsidiaries or project affiliates to incur additional indebtedness or to permit contractual restrictions on the distribution of cash from NRG's subsidiaries or project affiliates to NRG. As part of NRG's global tax strategy, NRG intends to maintain its earnings from foreign investments offshore, for permanent reinvestment in other foreign projects. For this reason, NRG intends to utilize the cash from its domestic operations including principal and interest received from loans made by NRG to its foreign affiliates to make the payments with respect to the Notes.

Although NRG expects that the cash available from its domestic operations and the repayment of the loans made to its foreign affiliates will be sufficient to make the payments under the Notes, there can be no assurance that these funds will be sufficient to make these payments as and when due. If NRG elects to repatriate earnings from its foreign operations to make these payments in case of such a shortfall, then NRG may incur United States taxes (net of any available foreign tax credits) on the repatriation of such foreign earnings. As a result of these additional taxes, there can be no assurance that the foreign earnings would be sufficient to make the payments on the Notes as and when due.

LEVERAGE

As of June 30, 1997, NRG had total indebtedness of $463.6 million at the corporate holding company level which results in a total debt-to-capitalization ratio of 48%; the Indenture imposes no limitations on the ability of NRG to incur additional indebtedness at this level. The substantial amount of debt at the level of the corporate holding company and at the levels of the project subsidiaries and project affiliates presents the risk that NRG might not generate sufficient cash to service its indebtedness, including the Notes, or that its leveraged capital structure could limit its ability to finance the acquisition and development of additional projects, to compete effectively or to operate successfully under adverse economic conditions. See "Capitalization," "Selected Consolidated Financial Data" and "Selected Pro Forma Condensed Financial Data."

In addition, under certain of the instruments governing NRG's debt, including the credit facility described below and the 7.625% Senior Notes due 2006, such debt may be accelerated upon certain events of default under the Indenture or a change of control of NRG. As a result, if any such event were to occur, NRG may not have sufficient capital to fully pay Holders the amount due under the Notes or to redeem any Notes tendered pursuant to the Change of Control Offer described under "Description of Notes -- Change of Control." See "Certain Indebtedness."

NRG has entered into a $175 million revolving credit facility with a syndicate of banks led by ABN AMRO Bank ("ABN AMRO"), which matures on March 17, 2000. It imposes certain requirements on NRG, including requirements as to the maintenance of (i) a minimum level of consolidated tangible net worth and (ii) a minimum ratio of consolidated tangible net worth to consolidated capitalization.

DEPENDENCE ON, AND CONTROL BY, NORTHERN STATES POWER

NSP is NRG's sole stockholder. Since NRG's formation, NSP has provided all NRG's equity funding for its business and operations. NRG's only other source of funding has been its borrowings and internally-generated cash flow from NRG's existing projects and investments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and

Capital Resources." There can be no assurance that NSP will contribute additional equity capital to NRG in the future. In the absence of continued equity contributions, there can be no assurance that NRG will have access to sufficient capital to fund its obligations with respect to its existing projects or to undertake new acquisition and development projects.

As NRG's sole stockholder, NSP has the power to control the election of the directors and all other matters submitted for stockholder approval and may be deemed to have control over the management and affairs of NRG. Currently, there are no outside directors on NRG's board of directors. In circumstances involving a conflict of interest between NSP, as the sole stockholder (and, with respect to certain projects, a significant customer of and supplier to NRG, see, "Certain Transactions"), on the one hand, and the holders of the Notes as creditors of NRG on the other, there can be no assurance that NSP would not exercise its power to control NRG in a manner that would benefit NSP to the detriment of the holders of the Notes. NSP has policies in place, pursuant to applicable law, to ensure that its ratepayers are protected from affiliate transactions that may be adverse to the ratepayers' interests. The Indenture imposes no limitations on NRG's ability to pay dividends or to make other payments to NSP or on NRG's ability to enter into transactions with NSP or other affiliates of NRG.

In addition, NSP is an important customer of, and supplier to, certain of NRG's businesses in the United States. See "Certain Transactions -- Operating Agreements." NRG purchases steam production

services from NSP for its Rock-Tenn and Washco steam transmission lines and sells RDF to NSP from its Newport resource recovery facility. NRG provides management, operation and maintenance services for the Elk River resource recovery facility and disposes of the Elk River facility's RDF ash at NSP's Becker ash landfill. See "Certain Transactions." The failure of NSP to comply with its obligations to NRG under the agreements governing such sales and services could have a material adverse effect on NRG's revenues from these projects.

RISKS OF DOING BUSINESS OUTSIDE THE UNITED STATES

A key component of NRG's business strategy is the development or acquisition of projects outside the United States. See "Business -- Strategy." The economic and political conditions in certain countries where NRG has interests or in which it is or could be exploring development or acquisition opportunities present risks of delays in permitting and licensing, construction delays and interruption of business, as well as risks of war, expropriation, nationalization, renegotiation or nullification of existing contracts and changes in law or tax policy, that are greater than in the United States. The uncertainty of the legal environment in certain foreign countries in which NRG may develop or acquire projects could make it more difficult to obtain non-recourse project financing on suitable terms and could impair NRG's ability to enforce its rights under agreements relating to such projects.

Operations in foreign countries also can present currency exchange, inflation, convertibility and repatriation risks. See "Business -- Strategy." In certain countries in which NRG may develop or acquire projects in the future, economic and monetary conditions and other factors could affect NRG's ability to convert its earnings to United States dollars or other hard currencies or to move funds offshore from such countries. Furthermore, the central bank of any such country may have the authority in certain circumstances to suspend, restrict or otherwise impose conditions on foreign exchange transactions or to approve distributions to foreign investors. Although NRG generally seeks to structure its power purchase agreements and other project revenue agreements to provide for payments to be made in, or indexed to, United States dollars or a currency freely convertible into United States dollars, there can be no assurance that NRG will be able to

achieve this structure in all cases or that a power purchaser or other customer will be able to obtain sufficient dollars or other hard currency to pay such obligations.

As part of privatizations or other acquisition opportunities, NRG may make investments in ancillary businesses not directly related to power generation, thermal energy production and transmission or resource recovery and in which NRG management may not have had prior experience. In such cases, NRG's policy is to attract partners with the necessary expertise. However, no assurance can be given that such persons will be available as co-venturers in every case. In addition, as a condition to participating in privatizations and refurbishments of formerly state-owned businesses, NRG may be required to undertake transitional obligations relating to union contracts, employment levels and benefits obligations for employees, which could prevent or delay the achievement of desirable operating efficiencies and financial performance.

ACQUISITION AND DEVELOPMENT UNCERTAINTIES

The development projects and acquisitions in which NRG may invest in the future, including those described herein, may be large and complex, and NRG may not be able to complete the development or acquisition of any such project. Development projects and acquisitions require NRG to expend significant sums for engineering, permitting, legal, financial advisory and other expenses in preparation for competitive bids that NRG may not win or before it can be determined whether a project is feasible, economically attractive or capable of being financed. There can be no assurance that the projects that NRG pursues, and on which it may spend significant sums, will prove to be desirable project investments, or that NRG will be able to win any such competitive bids, obtain new power purchase agreements, overcome any local opposition, and obtain the necessary agreements, contracts, licenses, certifications and permits necessary for the successful development of new projects and acquisition of interests in existing projects. Even if NRG is successful in the development or acquisition of an interest in a project, NRG may require substantial additional debt or equity financing for such projects, which additional financing may not be available on acceptable terms, if at all. Most acquisition agreements and

power purchase agreements permit the seller or customer, respectively, to terminate the agreement or impose penalties if the acquisition or operation of the project (as the case may be) is not achieved by a specified date. NRG may fail to acquire or develop projects despite having incurred significant expenses.

COMPETITION

The independent power industry is characterized by numerous strong and capable competitors, some of which have more extensive developmental or operating experience, more extensive experience in the acquisition and development of power generation capacity, larger staffs and greater financial resources than NRG. Further, in recent years, the domestic independent power industry has been characterized by strong and increasing competition which has contributed to a reduction in prices offered by utilities for power produced by independent power producers and has resulted in lower returns to project investors. See "Risk Factors -- Effects of Ongoing Changes in the U.S. Utility Industry" and "Business -- Competition."

Many of NRG's competitors also are seeking attractive acquisition opportunities, both in the United States and abroad. This competition may adversely affect NRG's ability to make investments or acquisitions on terms favorable to NRG. Many foreign and domestic utilities are now engaging in "competitive bid" solicitations for new capacity demands or acquisitions.

CONSTRUCTION AND START-UP RISKS; INADEQUATE INSURANCE, WARRANTIES AND PERFORMANCE GUARANTEES

As with any major industrial construction effort, the construction, expansion or refurbishment of a power generation, thermal energy production and transmission facility or resource recovery facility involves many risks, including supply interruptions, work stoppages, labor disputes, weather interferences, unforeseen engineering, environmental and geological problems and unanticipated cost overruns. The commencement of operation of such newly-constructed, expanded or refurbished facilities also involves many risks, including the breakdown or failure of equipment or processes and test performance below expected levels of output or efficiency. New plants may employ recently developed and technologically complex equipment, especially in the case of newer environmental emission control technology. While insurance is maintained to protect against certain risks, warranties are obtained from vendors for limited periods and contractors are obligated to meet certain performance levels, the proceeds of such insurance, warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or liquidated damages payments. As a result, a project may operate at a loss and be unable to fund principal and interest payments under its project financing agreements, which may allow the affected lenders to accelerate such debt.

In addition, many power and thermal energy purchase agreements permit the customer to terminate the agreement, retain security posted by the developer as liquidated damages or change the payments to be made to the project subsidiary or the project affiliate in the event certain milestones, such as commencing commercial operation of the project, are not met by specified dates. In the event such a termination right is exercised, a project may not commence generating revenues, the default provisions in a financing agreement may be triggered (rendering such debt immediately due and payable) and the project may be rendered insolvent as a result.

OPERATING RISKS; INADEQUATE INSURANCE, WARRANTIES AND PERFORMANCE GUARANTEES

The operation of a power generation facility, thermal energy production and transmission facility, resource recovery facility or mining facility involves many risks, including the breakdown or failure of generation equipment or other equipment or processes, labor disputes, fuel interruption and operating performance below expected levels. Operation below expected capacity levels may result in lost revenues or increased expenses, including higher maintenance costs and penalties. As a result, a facility may be unable to perform its obligations under its purchase agreements, triggering the default provisions in a financing agreement (rendering such debt immediately due and payable) and the project may be rendered insolvent as a result.

Certain power purchase agreements of NRG's project subsidiaries or project affiliates permit the purchaser to terminate the agreement, modify the payments required under the agreement, recover payments previously made under the agreement or require such project subsidiaries or project affiliates to pay liquidated damages under the agreement in certain circumstances. See "Business -- Independent Power Production and Cogeneration." While insurance is maintained to protect against certain risks, warranties are obtained from vendors for limited periods and contractors are obligated to meet certain performance levels, the proceeds of such insurance, warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or liquidated damages payments. As a result, default provisions in the project subsidiary's or project affiliate's financing agreements may be triggered, which might allow the affected lenders to accelerate such debt.

DEPENDENCE ON PROJECT AFFILIATES

Payments under power purchase agreements for domestic projects that

satisfy the requirements for "qualifying facility" status under the Public Utility Regulatory Policies Act ("PURPA") and that are based upon actual short-run (as opposed to forecasted long-run) "avoided cost" (or the cost that would otherwise have been paid for power from the purchasing utility's highest-cost generating facility, see "Business"), are subject to significant variations based upon a number of factors outside of the control of the owners of such facilities, including weather, economic conditions, and the particular operating profile and generating capacity position of the purchasing utility. A project affiliate of NRG owns a 50% interest in a joint venture that owns the Sunnyside waste coal-fired power generation facility in Carbon County, Utah. The Sunnyside facility has experienced a shortfall in project cash flow attributable primarily to decreased revenues due to avoided energy rates being significantly lower than originally forecasted. In the absence of a restructuring of the project's debt, a debt service reserve fund, which has been used to make up cash shortfalls, is expected to be depleted within twelve months. There can be no assurance as to the actions the partnership which owns the Sunnyside facility may take at that time. See "Business -- Independent Power Production and Cogeneration -- Sunnyside."

NRG has provided guarantees relating to certain equity and operating obligations of its project subsidiaries. One example is NRG's guarantee of the obligations of its project subsidiary that operates the Gladstone facility for up to AUS$25 million, indexed to the Australian consumer price index ("ACPI") (US$20.6 million, based on exchange rates and ACPI in effect at June 30, 1997), under the project subsidiary's operating and maintenance agreement with the owners of the facility. If NRG were required to satisfy all these guarantees and other obligations, such event would have a material adverse effect on NRG's condition, financial and otherwise. See "Business -- Description of NRG's Projects" and "Business -- Independent Power Production and Cogeneration -- Gladstone Power Station."

DEPENDENCE ON CERTAIN CUSTOMERS AND PROJECTS

A power generation, thermal energy production and transmission or resource recovery facility typically relies on a single supplier each for the provision of fuel, water and other services required for operation of the facility and on a single customer or a few customers to purchase all of the facility's output, in each case under long-term agreements that provide the support for any project debt used to finance such facilities. The failure of any one customer or supplier to fulfill its contractual obligations to the facility could have a material adverse effect on such facility's financial results. As a result, the financial performance of such facilities is dependent on the continued performance by customers and suppliers of their obligations under such long-term agreements and, in particular, on the credit quality of the project's customers. Each of the Rock-Tenn and Newport projects produced more than ten percent of NRG's net revenues for 1996. See "Business -- Principal Customers of Operating Subsidiaries." In addition, on a pro forma basis Loy Yang A would have produced more than ten percent of NRG's net revenues for 1996.

GOVERNMENTAL REGULATION

NRG is subject to a number of complex and stringent environmental and other laws and regulations affecting many aspects of its present and future operations, including the disposal of various forms of

waste and the construction or permitting of new facilities. See "Regulation." Such laws and regulations generally require NRG to obtain and comply with a wide variety of licenses, permits and other approvals, and may in some cases be enforced by both public officials and private individuals. There can be no assurance that existing laws or regulations will not be revised or that new laws or regulations will not be adopted or become applicable to NRG which

could have an adverse impact on its operations. There can be no assurance that NRG will be able to recover all or any increased costs of compliance from its customers or that its business and financial condition will not be materially and adversely affected by future changes in environmental laws or regulations. In addition, regulatory compliance for the construction of new facilities is a costly and time-consuming process, and intricate and rapidly changing environmental regulations may require major expenditures for permitting and create the risk of expensive delays or material impairment of project value if projects cannot function as planned due to changing regulatory requirements or local opposition.

PURPA and the Public Utility Holding Company Act of 1935, as amended ("PUHCA"), are two of the laws (including the regulations thereunder) that affect NRG's operations. PURPA provides to qualifying facilities ("QFs") certain exemptions from federal and state laws and regulations, including organizational, rate and financial regulation. PUHCA regulates public utility holding companies and their subsidiaries. NRG is not and will not be subject to regulation as a holding company under PUHCA as long as the domestic power plants it owns are QFs under PURPA or are exempted as exempt wholesale generators ("EWGs"), and so long as its foreign utility operations are exempted as EWGs or foreign utility companies or are otherwise exempted under PUHCA. QF status is conditioned on meeting certain criteria, and could be jeopardized, for example, by the loss of a steam customer or reduction of steam purchases below the amount required by PURPA. See "Regulation."

CHANGES IN STATE MUNICIPAL SOLID WASTE ("MSW") FLOW CONTROL LAWS

RDF projects, such as NRG's Newport facility and NSP's Elk River facility, which is operated by NRG, historically were assured an adequate supply of MSW through state and local flow control legislation, which directed that MSW be disposed of in certain facilities. In May 1994, the United States Supreme Court held that MSW is a commodity in interstate commerce and, accordingly, that flow control legislation that prohibited shipment of MSW out of state is unconstitutional. Since this Supreme Court holding, the RDF facilities owned or operated by NRG have faced increased competition from landfills in surrounding states. As a result of such competition, MSW processed at the Newport facility decreased approximately 5% in 1995, from approximately 378,000 tons in 1994 to 360,000 tons in 1995. In 1996, however, due to assistance from NRG and a reduction of tipping fees under contracts entered into between haulers and the Ramsey and Washington Counties, waste deliveries reversed their downward trend. However, in the absence of valid flow control legislation, there can be no assurance that this improved trend will continue. See "Business -- Resource Recover Facilities."

EFFECTS OF ONGOING CHANGES IN THE U.S. UTILITY INDUSTRY

The U.S. electric utility industry currently is experiencing increasing competitive pressures, primarily in wholesale markets, as a result of consumer demands, technological advances, greater availability of natural gas and other factors. The Federal Energy Regulatory Commission ("FERC") has proposed regulatory changes to increase access to the nationwide transmission grid by utility and non-utility purchasers and sellers of electricity. A number of states are considering or implementing methods to introduce and promote retail competition. Proposals have been introduced in Congress to repeal PURPA and PUHCA, and the FERC has publicly indicated support for the PUHCA repeal effort. Additionally, some utilities have brought litigation aimed at forcing the renegotiation or termination of contracts requiring payments to owners of qualifying facilities based upon past estimates of avoided cost that are now substantially in excess of market prices. There can be no assurance that, in the future, utilities, with the approval of state public utility commissions, will not seek to abrogate their existing power purchase agreements. See "Regulation."

If the repeal of PURPA or PUHCA occurs, either separately or as part of legislation designed to encourage the broader introduction of wholesale and retail competition, the significant competitive

advantages that independent power producers currently enjoy over certain regulated utility companies would be eliminated or sharply curtailed, and the ability of regulated utility companies to compete more directly with independent power companies would be increased. To the extent competitive pressures increase and the pricing and sale of electricity assumes more characteristics of a commodity business, the economics of domestic independent power generation projects may come under increasing pressure, and the availability of long-term power purchase agreements, which can serve as the basis for project financings, may decrease. Deregulation may not only continue to fuel the current trend toward consolidation among domestic utilities but may also encourage the disaggregation of vertically-integrated utilities into separate generation, transmission and distribution businesses. As a result, additional significant competitors could become active in the independent power industry. In addition, independent power producers may find it increasingly difficult to negotiate long-term power sales agreements with solvent utilities, which may affect the profitability and financial stability of independent power projects.

LACK OF PUBLIC MARKET FOR THE NOTES

The New Notes are being offered to the Holders of the Old Notes. The Old Notes were issued in June 1997 to a small number of institutional investors and are eligible for trading in the Private Offering, Resale, and Trading through Automated Linkages (PORTAL) Market, the National Association of Securities Dealers' screenbased, automated market for trading of securities eligible for resale under Rule 144A. The New Notes are new securities for which there currently is no market. Although the Initial Purchasers (as defined herein) have informed NRG that they currently intend to make a market in the New Notes, they are not obligated to do so and any such market making may be discontinued at any time without notice. NRG does not intend to list the New Notes or the Old Notes on any securities exchange or to seek approval for quotation through any automated quotation system. There can be no assurance as to the development or liquidity of any market for the New Notes or the Old Notes.

FORWARD-LOOKING STATEMENTS

Certain statements under the captions "Offering Memorandum Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this Offering Memorandum constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of NRG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; industry capacity; demographic changes; competition; changes in technology; changes in political, social and economic conditions; changes in local laws and regulations; changes in electricity usage patterns and practices; changes in fuel pricing, including coal, oil and oil products and natural gas; and various other factors beyond NRG's control.

EXCHANGE OFFER PROCEDURES

Subject to the conditions set forth under "The Exchange Offer -- Conditions to the Exchange Offer," issuance of the New Notes in exchange for Old Notes pursuant to the Exchange Offer will be made only after a timely receipt by NRG of (i) a book-entry confirmation (as defined below) evidencing the tender of such Old Notes through ATOP or (ii) certificates representing such Old Notes, a properly completed and duly executed Letter of Transmittal, with any required signature guarantees, and all other required documents. See "The Exchange Offer -- Acceptance for Exchange and Issuance of Capital Securities" and "-- Procedures for Tendering Original Capital Securities." Therefore, holders of the Old Notes desiring to tender such Old Notes in exchange for New Notes should allow sufficient time to ensure timely delivery. NRG is under no duty to give notification of defects or

irregularities with respect to the tenders of Old Notes for exchange.

USE OF PROCEEDS

NRG will not receive any proceeds from the issuance of the New Notes offered pursuant to the Exchange Offer. In consideration for issuing the New Notes as contemplated in this Prospectus, NRG will receive in exchange Old Notes in like principal amount, the terms of which are identical in all material respects to the New Notes except for certain transfer restrictions and registration rights. The Old Notes surrendered in exchange for New Notes will be retired and cancelled and cannot be reissued. Accordingly, issuance of the New Notes will not result in any increase in the indebtedness of NRG.

The net proceeds to NRG from the offering of the Old Notes, after deducting discounts and expenses, were approximately $246.0 million. NRG used those net proceeds to repay outstanding debt under the Bridge Financing and for other general corporate purposes. The Bridge Financing was used for the acquisition of NRG's interest in the Loy Yang Project. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Certain Indebtedness."

THE EXCHANGE OFFER

TERMS OF THE EXCHANGE OFFER; PERIOD FOR TENDERING OLD NOTES

The Old Notes were sold by NRG on June 17, 1997 (the "Closing Date") to Salomon Brothers Inc, ABN AMRO Chicago Corporation and Chase Securities Inc. (the "Initial Purchasers") pursuant to a Purchase Agreement, dated June 12, 1997, entered into by and among NRG and the Initial Purchasers (the "Purchase Agreement"). Upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal (which together constitute the Exchange Offer), NRG will accept for exchange Old Notes which are properly tendered on or prior to the Expiration Date and not withdrawn as permitted below. As used herein, the term "Expiration Date" means 5:00 p.m., New York City time on , 1997; provided, however, that if NRG, in its sole discretion, has extended the period of time for which the Exchange Offer is open, the term "Expiration Date" means the latest time and date to which the Exchange Offer is extended.

As of the date of this Prospectus, $250,000,000 aggregate principal amount of the Old Notes is outstanding. This Prospectus, together with the Letter of Transmittal, is first being sent on or about , 1997, to all Holders of Old Notes known to NRG. NRG's obligation to accept Old Notes for exchange pursuant to the Exchange Offer is subject to certain conditions as set forth under "--Conditions to the Exchange Offer" below.

NRG expressly reserves the right, at any time or from time to time, to extend the period of time during which the Exchange Offer is open, and thereby delay acceptance for exchange of any Old Notes, by giving oral or written notice of such extension to the Holders thereof as described below. During any such extension, all Old Notes previously tendered will remain subject to the Exchange Offer and may be accepted for exchange by NRG. Any Old Notes not accepted for exchange for any reason will be returned without expense to the tendering Holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.

Old Notes tendered in the Exchange Offer must be in denominations of principal amount of $1,000 or any integral multiple thereof.

NRG expressly reserves the right to amend or terminate the Exchange Offer, and not to accept for exchange any Old Notes not theretofore accepted for exchange, upon the occurrence of any of the conditions of the Exchange Offer specified below under "--Conditions to the Exchange Offer." NRG will give

oral or written notice of any extension, amendment, non-acceptance or termination to the Holders of the Old Notes as promptly as practicable, such notice in the case of any extension to be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

PROCEDURES FOR TENDERING

The tender to NRG of Old Notes by a Holder thereof as set forth below and the acceptance thereof by NRG will constitute a binding agreement between the tendering Holder and NRG upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal. Except as set forth below, a Holder who wishes to tender Old Notes for exchange pursuant to the Exchange Offer must transmit a properly completed and duly executed Letter of Transmittal, including all other documents required by such Letter of Transmittal, to Norwest Bank Minnesota, National Association (the "Exchange Agent") at one of the addresses set forth below under "--Exchange Agent" for receipt on or prior to the Expiration Date. In addition, either (i) certificates for such Old Notes must be received by the Exchange Agent along with the Letter of Transmittal or (ii) if using ATOP, a timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such Old Notes, if such procedure is available, into the Exchange Agent's account at The Depositary Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedure for book-entry transfer described below, must be received by the Exchange Agent prior to the Expiration Date or (iii) the Holder must comply with the guaranteed delivery procedures described below.

THE METHOD OF DELIVERY OF OLD NOTES AND THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS TO THE EXCHANGE AGENT IS AT THE ELECTION AND RISK OF THE HOLDERS. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY. NO LETTER OF TRANSMITTAL OR OLD NOTES SHOULD BE SENT TO NRG.

Any beneficial owner whose Old Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact the registered Holder promptly and instruct such registered Holder to tender on such beneficial owner's behalf. If such beneficial owner wishes to tender on such owner's own behalf, such owner must, prior to completing and executing the Letter of Transmittal and delivering such owner's Old Notes, either make appropriate arrangements to register ownership of the Old Notes in such owner's name or obtain a properly completed bond power from the registered Holder. The transfer of registered ownership may take considerable time.

Signatures on a Letter of Transmittal or a notice of withdrawal described below (see "--Withdrawal of Tenders"), as the case may be, must be guaranteed as described below (see "--Guaranteed Delivery Procedures") unless the Old Notes tendered pursuant thereto are tendered (i) by a registered Holder who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the Letter of Transmittal or (ii) for the account of an Eligible Institution (as defined below). In the event that signatures of a Letter of Transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantee must be made by a financial institution (including most banks, savings and loan associations and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchange Medallion Program (collectively, "Eligible Institutions"). If Old Notes are registered in the name of a person other than a signer of the Letter of Transmittal, the Old Notes surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by NRG, duly executed by the registered Holder with the signature thereon guaranteed by an Eligible Institution.

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of tendered Old Notes will be determined by NRG in its sole discretion, which determination will be final and binding. NRG reserves the absolute right to reject any and all tenders of any particular Old Notes not properly tendered or to not accept any particular Old Note if acceptance would, in the judgment of NRG or its counsel, be unlawful. NRG also reserves the absolute right to waive any defects, irregularities or conditions of the Exchange Offer as to any particular Old Notes either before or after the Expiration Date (including the right to waive the ineligibility of any Holder who seeks to tender Old Notes in the Exchange Offer). The interpretation of the terms and conditions of the Exchange Offer as to any particular Old Notes either before or after the Expiration Date (including the Letter of Transmittal and the instructions thereto) by NRG will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes for exchange must be cured within such reasonable period of time as NRG may determine. None of NRG, the Exchange Agent or any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of Old Notes for exchange, nor will any of them incur any liability for failure to give such notification.

If the Letter of Transmittal is signed by a person or persons other than the registered Holder or Holders of Old Notes, such Old Notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered Holder or Holders that appear on the Old Notes.

If the Letter of Transmittal or any Old Note or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by NRG, proper evidence satisfactory to NRG of their authority to so act must be submitted with the Letter of Transmittal.

By tendering, each Holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of New Notes. If any Holder is an affiliate of NRG, is engaged in or intends to engage in or has any arrangement with any person to participate in the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such Holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, including the delivery of a prospectus which contains the information with respect to any selling holder required by the Securities Act. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must represent to NRG that it will deliver a prospectus in connection with any resale of such New Notes. See "Plan of Distribution." The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

ACCEPTANCE OF OLD NOTES FOR EXCHANGE; DELIVERY OF NEW NOTES

Upon satisfaction or waiver of all of the conditions to the Exchange Offer, NRG will accept, promptly after the Expiration Date, all Old Notes properly tendered and will issue the New Notes promptly after acceptance of the Old Notes. See "--Conditions to the Exchange Offer" below. For purposes of the Exchange Offer, NRG will be deemed to have accepted properly tendered Old Notes for exchange, when, as and if NRG has given oral or written notice thereof to the Exchange Agent.

For each Old Note accepted for exchange, the Holder of such Old Note will receive a new Note having a principal amount equal to that of the surrendered Old Note. Accordingly, registered Holders of New Notes on the relevant record date for the first interest payment date following the consummation of the Exchange Offer will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from June 17, 1997. Old Notes accepted for exchange will cease to accrue interest from and after the date of consummation of the Exchange Offer. Holders of Old Notes whose Old Notes are accepted for exchange will not receive any payment in respect of accrued interest on such Old Notes otherwise payable on any interest payment date the record date for which occurs on or after consummation of the Exchange Offer. In the event of a Registration Default under and as defined in the Registration Rights Agreement, NRG will pay Special Interest to each Holder of Transfer Restricted Securities (as defined herein). See "Description of Notes -- Special Interest."

In all cases, issuance of New Notes for Old Notes that are accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of certificates for such Old Notes or, if using ATOP, a timely Book-Entry Confirmation of such Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility, a properly completed and duly executed Letter of Transmittal and all other required documents. If any tendered Old Notes are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if Old Notes are submitted for a greater principal amount than the Holder desires to exchange, such unaccepted or non-exchanged Old Notes will be returned without expense to the tendering Holder thereof (or, in the case of Old Notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry procedures described below, such non-exchanged Old Notes will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration or termination of the Exchange Offer.

BOOK-ENTRY TRANSFER

The Exchange Agent will make a request to establish an account with respect to the Old Notes at the Book-Entry Transfer Facility for purposes of the Exchange Offer within two business days after the date of this Prospectus, and any tendering financial institution that is a participant in the Book-Entry Transfer Facility's systems must make book-entry delivery of Old Notes by causing the Book-Entry Transfer Facility to transfer such Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility in accordance with the Book-Entry Transfer Facility's ATOP procedures for transfer. Such holder of Old Notes using ATOP should transmit its acceptance to the Book-Entry Transfer Facility

on or prior to the Expiration Date (or comply with the guaranteed delivery procedures set forth below). The Book-Entry Transfer Facility will verify such acceptance, execute a book-entry transfer of the tendered Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility and then send to the Exchange Agent confirmation of such book-entry transfer, including an Agent's Message confirming that the Book-Entry Transfer Facility has received an express acknowledgement from such holder that such holder has received and agrees to be bound by this Letter of Transmittal and that NRG may enforce this Letter of Transmittal against such Holder (a "Book-Entry Confirmation").

GUARANTEED DELIVERY PROCEDURES

If a registered Holder of the Old Notes desires to tender such Old Notes

and the Old Notes are not immediately available, or time will not permit such Holder's Old Notes or other required documents to reach the Exchange Agent before the Expiration Date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if (i) the tender is made through an Eligible Institution, (ii) prior to the Expiration Date, the Exchange Agent receives from such Eligible Institution a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by NRG (by telegram, telex, facsimile transmission, mail or hand delivery), setting forth the name and address of the Holder of Old Notes and the principal amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that, within three New York Stock Exchange, Inc. ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and any other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent, and (iii) the certificates for all physically tendered Old Notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and all other documents required by the Letter of Transmittal, are received by the Exchange Agent within three NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

WITHDRAWAL OF TENDERS

Tenders of Old Notes may be withdrawn at any time prior to the Expiration Date.

For a withdrawal to be effective, a written notice of withdrawal must be received by the Exchange Agent at one of its addresses set forth below under "--Exchange Agent" prior to the Expiration Date. Any such notice of withdrawal must (i) specify the name of the person having deposited the Old Notes to be withdrawn (the "Depositor"), (ii) identify the Old Notes to be withdrawn (including the principal amount of such Old Notes), and (iii) (where certificates for Old Notes have been transmitted) specify the name in which such Old Notes are registered, if different from that of the withdrawing Holder. If certificates for Old Notes have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such certificates the withdrawing Holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution unless such Holder is an Eligible Institution. If Old Notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Old Notes and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by NRG, whose determination shall be final and binding on all parties. Any Old Note so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any Old Note which has been tendered for exchange but which is not exchanged for any reason will be returned to the Holder thereof without cost to such Holder (or, in the case of Old Notes tendered by book-entry transfer procedures described above, such Old Notes will be credited to an account maintained with such Book-Entry Transfer Facility for the Old Notes) as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn Old Notes may be retendered by following one of the procedures described under "--Procedures for Tendering Old Notes" above at any time on or prior to the Expiration Date.

CONDITIONS TO THE EXCHANGE OFFER

Notwithstanding any other provision of the Exchange Offer, NRG will not be required to accept for exchange, or issue New Notes in exchange for, any Old Notes and may terminate or amend the Exchange Offer if at any time before the acceptance of such Old Notes for exchange or the exchange of the New Notes

for such Old Notes, any of the following events occur:

(a) there shall be threatened, instituted or pending any action or proceeding before, or any injunction, order or decree shall have been issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission, (i) seeking to restrain or prohibit the making or consummation of the Exchange Offer or any other transaction contemplated by the Exchange Offer, or assessing or seeking any damages as a result thereof, or (ii) resulting in a material delay in the ability of NRG to accept for exchange or exchange some or all of the Old Notes pursuant to the Exchange Offer, or any statute, rule, regulation, order or injunction shall be sought, proposed, introduced, enacted, promulgated or deemed applicable to the Exchange Offer or any of the transactions contemplated by the Exchange Offer by any government or governmental authority, domestic or foreign, or any action shall have been taken, proposed or threatened, by any government or governmental authority, agency or court, domestic or foreign, that in the reasonable judgment of NRG might directly or indirectly result in any of the consequences referred to in clauses (i) or (ii) above or, in the reasonable judgment of NRG, might result in the Holders of New Notes having obligations with respect to resales and transfers of New Notes which are greater than those described in the interpretation of the Commission referred to on the cover page of this Prospectus, or would otherwise make it inadvisable to proceed with the Exchange Offer; or

(b) there shall have occurred (i) any general suspension of or general limitation on prices for, or trading in, securities on any national securities exchange or in the over-the-counter market, (ii) any limitation by any governmental agency or authority which may adversely affect the ability of NRG to complete the transactions contemplated by the Exchange Offer, (iii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by any governmental agency or authority which adversely affects the extension of credit or (iv) a commencement of a war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or, in the case of any of the foregoing existing at the time of the commencement of the Exchange Offer, a material acceleration or worsening thereof; or

(c) any change (or any development involving a prospective change) shall have occurred or be threatened in the business, properties, assets, liabilities, financial condition, operations, results of operations or prospects of NRG and its subsidiaries taken as a whole that, in the reasonable judgment of NRG, is or may be adverse to NRG, or NRG shall have become aware of facts that, in the reasonable judgment of NRG, have or may have adverse significance with respect to the value of the Old Notes or the New Notes;

which, in the reasonable judgment of NRG in any case, and regardless of the circumstances (including any action by NRG) giving rise to any such condition, makes it inadvisable to proceed with the Exchange Offer and/or with such acceptance for exchange or with such exchange.

The foregoing conditions are for the sole benefit of NRG and may be asserted by NRG regardless of the circumstances giving rise to any such condition or may be waived by NRG in whole or in part at any time and from time to time in its sole discretion. The failure by NRG at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, NRG will not accept for exchange any Old Note tendered, and no New Notes will be issued in exchange for any such Old Note, if at such time any stop order shall be threatened or in effect with respect to the Registration Statement of which this Prospectus constitutes a part or the qualification of the Indenture under the Trust Indenture Act of 1939.

EXCHANGE AGENT

Norwest Bank Minnesota, National Association has been appointed as the Exchange Agent of the Exchange Offer. All executed Letters of Transmittal should be directed to the Exchange Agent at one of the addresses set forth below. Questions and requests for assistance, requests for additional copies of this Prospectus or of the Letter of Transmittal and requests for Notice of Guaranteed Delivery should be directed to the Exchange Agent addressed as follows:

By Registered or Certified Mail:
Norwest Bank Minnesota, National Association
P.O. Box 1517
Minneapolis, Minnesota 55480-1517
Attention: Corporate Trust Operations

By Hand Delivery:
Norwest Bank Minnesota National Association
Northstar East 12th Floor
608 2nd Avenue
Minneapolis, Minnesota 55479-0113
Attention: Corporate Trust Operations

By Overnight Delivery:
Norwest Bank Minnesota National Association
Norwest Center
6th and Marquette Avenue
Minneapolis, Minnesota 55479-0069
Attention: Corporate Trust Operations

By Facsimile:
(612) 667-4927
Confirm by Telephone:
(612) 667-9764

DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

FEES AND EXPENSES

NRG will not make any payment to brokers, dealers or others soliciting acceptances of the Exchange Offer.

The estimated cash expenses to be incurred in connection with the Exchange Offer will be paid by NRG and are estimated in the aggregate to be $400,000.

TRANSFER TAXES

Holders who tender their Old Notes for exchange will not be obligated to pay any transfer tax in connection therewith, except that Holders who instruct NRG to register New Notes in the name of, or request that Old Notes not tendered or not accepted in the Exchange Offer be returned to, a person other than the registered tendering Holder will be responsible for the payment of any applicable transfer tax thereon.

CONSEQUENCES OF FAILURE TO EXCHANGE OLD NOTES

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. NRG does not currently anticipate that it will register Old Notes under the Securities Act. See "Description of Notes -- Registration Rights." Based on interpretations by the staff of the Commission issued to third parties,

New Notes issued pursuant to the Exchange Offer in exchange for Old Notes may be offered for resale, resold or otherwise transferred by Holders thereof (other than any Holder which is an "affiliate" of NRG within the meaning of

Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such Holders' business and such Holders have no arrangement with any person to participate in the distribution of such New Notes. Each Holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of New Notes. If any Holder is an affiliate of NRG, is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such Holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes must acknowledge that such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities and that it will deliver a prospectus in connection with any resale of such New Notes. See "Plan of Distribution." In addition, to comply with the securities laws of certain jurisdictions, if applicable, the New Notes may not be offered or sold unless they have been registered or qualified for sale in such jurisdiction or an exemption from registration or qualification is available and is complied with. NRG does not currently intend to register or qualify the sale of the New Notes in any such jurisdictions.

CAPITALIZATION

The following table sets forth the unaudited consolidated capitalization of NRG as of June 30, 1997.

	JUNE 30, 1997
	(DOLLARS IN THOUSANDS) (UNAUDITED)
Long-term debt:	
Existing funded debt(1)	$463,614
Notes	--
Total long-term debt	463,614
Stockholder's equity:	
Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1
Additional paid-in capital(2)	432,480
Retained earnings	78,290
Currency translation adjustments	(13,845)
Total stockholder's equity	496,926
Total capitalization	$960,540

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(1) Includes $5.3 million of current portion of long-term debt and $78.5 million of debt relating to MEC and NRG San Diego, including current maturities, which is non-recourse to NRG.

(2) Includes the $60.9 million contribution by NSP in connection with the acquisition of Loy Yang A.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below as of December 31, 1993, 1994, 1995 and 1996 and for the years then ended, have been derived from the audited consolidated financial statements of NRG. Certain financial information for the years ended December 31, 1993 and 1994 have been reclassified to conform to the financial presentation for the year ended December 31, 1995. The selected consolidated financial data set forth below as of June 30, 1996 and 1997, and for the six-month periods then ended, and as of December 31, 1992 and for the year then ended, have been derived from the unaudited consolidated financial statements of NRG. Interim results and the results for 1992, in the opinion of management of NRG, include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information for such periods; however, such interim results are not necessarily indicative of the results that may be expected for any other interim period or for a full year. The following data should be read in conjunction with the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

CONSOLIDATED STATEMENTS OF INCOME DATA:

	YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(IN THOUSANDS)						
OPERATING REVENUES							
Revenues from wholly-owned operations(1) .	$39,647	$48,529	$63,970	$64,180	$ 71,649	$35,367	$ 42,685
Equity in operating earnings of unconsolidated affiliates(2)(3).....	1,321	2,695	27,155	23,639	32,815	11,914	13,846
Total operating revenues	40,968	51,224	91,125	87,819	104,464	47,281	56,531
OPERATING COSTS AND EXPENSES							
Cost of operations--wholly-owned operations	22,870	27,122	34,861	32,535	36,562	18,104	22,696
Depreciation and amortization	5,060	6,475	8,675	8,283	8,378	4,161	4,544
General, administrative, and development	14,930	11,448	19,993	34,647	39,248	18,280	18,039
Total operating costs and expenses	42,860	45,045	63,529	75,465	84,188	40,545	45,279
OPERATING INCOME (LOSS)	(1,892)	6,179	27,596	12,354	20,276	6,736	11,252
OTHER INCOME (EXPENSE)							
Equity in gain from project termination settlements(4)	--	--	9,685	29,850	--	--	--
Other income (expense), net	(1,753)	1,028	1,411	4,896	9,477	4,255	6,267
Interest expense	(1,662)	(2,679)	(6,682)	(7,089)	(15,430)	(7,277)	(11,182)
Total other income (expense)	(3,415)	(1,651)	4,414	27,657	(5,953)	(3,022)	(4,915)
INCOME (LOSS) BEFORE INCOME TAXES	(5,307)	4,528	32,010	40,011	14,323	3,714	6,337
INCOME (BENEFIT)TAXES(5)	(2,187)	1,905	2,472	8,810	(5,655)	(2,793)	(5,652)
NET INCOME (LOSS).....	$(3,120)	$ 2,623	$29,538	$31,201	$ 19,978	$ 6,507	$ 11,989

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(1) All of these revenues are from 100% owned operations. In accordance with its strategy described herein, when NRG does not own 100% of a project, it owns 50% or less in all cases except COBEE and Kladno.

(2) NRG accounts for its investments in projects where ownership is between 20% and 50%, and where there is no effective and legal control, using the equity method of accounting; COBEE and Kladno are also accounted for using the equity method of accounting even though NRG currently owns more than a 50% interest in both projects because NRG intends to sell down below the 50% level. Equity in earnings of unconsolidated

project affiliates includes NRG's proportionate share of all net income or losses attributable to project investments accounted for using the equity method.

(3) Includes pretax charges of $5.0 million, $5.0 million and $1.5 million in the years 1994, 1995 and 1996, respectively, to write-down the carrying value of certain energy projects.

(4) In 1994, NRG and its partner in the Michigan Cogeneration Partners Limited Partnership agreed to terminate a power sales contract with Consumers Power Company. The contract related to a 65 MW cogeneration facility being developed in Michigan. Due to the agreement to terminate the contract, NRG recorded a one-time pre tax-gain of $9.7 million in 1994.

Equity in gain from project termination settlements in 1995 included a one-time pre-tax gain of $29.9 million related to the settlement and termination of the San Joaquin Valley power purchase agreements with PG&E. See "Business -- Independent Power Production and Cogeneration--Domestic Projects --San Joaquin."

(5) NRG is included in the consolidated federal income tax and state franchise tax returns of NSP. NRG calculates its tax position on a separate company basis under a tax sharing agreement with NSP and receives payment from NSP for tax benefits and pays NSP for tax liabilities.

CONSOLIDATED BALANCE SHEET DATA:

	AS OF DECEMBER 31,					AS OF JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(IN THOUSANDS)						
Net property, plant and equipment	$46,694	$108,934	$107,634	$111,919	$129,649	$113,389	$141,059
Net equity investments in projects	16,400	20,046	164,863	221,129	365,749	251,107	638,780
Long-term debt, including current maturities	10,499	93,451(1)	93,339(1)	90,034(1)	212,141(1)	213,888(1)	463,614(1)
Stockholder's equity	40,267	97,722	234,722	319,764	421,914	352,199	496,926

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(1) Includes debt relating to MEC and NRG San Diego, including current maturities, which is non-recourse to NRG. As of June 30, 1997 this debt was $78.5 million.

OTHER DATA (UNAUDITED):

	AS OF AND FOR THE YEAR ENDED DECEMBER 31,					AS OF AND FOR THE SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
	(DOLLARS IN THOUSANDS)						
NRG's net power generating capacity (MW)	33	33	992	999	1,326	1,213	2,080
NRG's net thermal energy generating capacity:							
mmBtus per hour	695	1,865	1,961	2,318	2,654	2,654	2,693
MWt	204	547	575	679	822	822	833
Consolidated EBITDA (1)	$1,415	$13,682	$47,367	$55,383	$38,131	$15,152	$22,063
Consolidated interest expense	1,662	2,679	6,682	7,089	15,430	7,277	11,182
Consolidated interest expense coverage ratio (2)	0.85x	5.11x	7.09x	7.81x	2.47x	2.08x	1.97x
Consolidated debt service (3)	$2,562	4,272	9,169	10,394	18,323	8,423	12,409
Consolidated debt service coverage ratio (4)	0.55x	3.20x	5.17x	5.33x	2.08x	1.80x	1.78x

Consolidated ratio of earnings to fixed charges (5).....	(6)	2.32x	2.98x	1.56x(8)	1.75x(9)	3.52x	(7)

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(1) EBITDA equals the sum of income (loss) before income taxes, interest expense (net of capitalized interest) and depreciation and amortization expense. Management believes that some investors consider EBITDA an accepted indicator of a company's ability to service debt. EBITDA is not a measure of financial performance under generally accepted accounting principles and should not be considered in isolation or as a substitute for net income, cash flows from operations or other income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity. In addition, EBITDA may not be comparable to similarly titled measures presented by other companies and could be misleading unless all companies and analysts calculate them in the same fashion. See Statements of Cash Flows in the Consolidated Financial Statements included elsewhere in this Prospectus.

(2) The interest expense coverage ratio equals EBITDA divided by interest expense.

(3) Debt service consists of the previous twelve months of interest expense and principal payments on long-term debt.

(4) The debt service coverage ratio equals EBITDA divided by debt service.

(5) The ratio of earnings to fixed charges is calculated by dividing earnings by fixed charges. For this purpose "earnings" means income (loss) before income taxes less undistributed equity in operating earnings of unconsolidated affiliates less equity in gain from project termination settlements plus cash distributions from project termination settlements plus fixed charges. "Fixed charges" means interest expense plus interest capitalized plus amortization of debt issuance costs plus a reasonable approximation of the interest factor of rental expense.

(6) Due primarily to the loss incurred in 1992, NRG was unable to fully cover fixed charges. Earnings did not cover fixed charges by $5,940.

(7) Due primarily to undistributed equity earnings exceeding income before income taxes, NRG was unable to fully cover fixed charges. Earnings did not cover fixed charges by $6,620.

(8) The 1995 ratio of earnings to fixed charges calculation includes the effect of an equity gain and cash distribution from a project termination settlement. If the project termination had not occurred, NRG would have been unable to fully cover fixed charges and earnings would not have covered fixed charges by $9,913.

(9) The 1996 ratio of earnings to fixed charges calculation includes the effect of a cash distribution from a 1995 project termination settlement. If the project termination had not occurred, NRG would have been unable to fully cover fixed charges and earnings would not have covered fixed charges by $3,504 for the year ended December 31, 1996.

SELECTED PRO FORMA CONDENSED FINANCIAL DATA

The unaudited pro forma condensed financial data set forth below give effect to (i) the acquisition by NRG of a 25.37% equity interest in Loy Yang A and the financing thereof and (ii) the Offering. The pro forma statement of income data for the year ended December 31, 1996 and the six months ended June 30, 1997 gives effect to such transactions as if they had occurred at the beginning of the periods presented. As the Loy Yang acquisition and the Offering were consummated prior to June 30, 1997, no pro forma balance sheet data is provided. The pro forma condensed financial data do not purport to be indicative of the combined financial position or results of operations of future periods or indicative of the results that would have occurred had the transactions referred to above been consummated on the dates indicated. The following data should be read in conjunction with, and are qualified in their

entirety by, the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

FOR THE YEAR ENDED DECEMBER 31, 1996

	HISTORICAL	ADJUSTMENTS	PRO FORMA
		(IN THOUSANDS)	
STATEMENT OF INCOME DATA:			
Revenues from wholly-owned operations	$ 71,649	--	$ 71,649
Equity in earnings of unconsolidated affiliates	32,815	$ 9,460 (1)	42,275
Operating costs and expenses	(84,188)	--	(84,188)
Other income (expense)	9,477	--	9,477
Interest expense	(15,430)	(18,750) (2)	(34,180)
Income taxes	5,655	4,373 (3)	10,028
Net Income	$ 19,978	$ (4,917)	$ 15,061

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(1) Represents estimated equity earnings from Loy Yang A for twelve months based upon historical data adjusted for differences due to acquisition accounting primarily depreciation charges, finance charges and adjustments to income tax expense.

(2) Represents accrued interest on $250 million principal amount of the Old Notes for twelve months at a rate of 7.5% per annum.

(3) Net tax benefit derived from interest expense on the Old Notes.

AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 1997

	HISTORICAL	ADJUSTMENTS	PRO FORMA
		(IN THOUSANDS)	
STATEMENT OF INCOME DATA:			
Revenues from wholly-owned operations	$ 42,685	$ --	$ 42,685
Equity in earnings of unconsolidated affiliates	13,846	410 (1)	14,256
Operating costs and expenses	(45,279)	--	(45,279)
Other income and (expense)	6,267	--	6,267
Interest expense	(11,182)	(7,950)	(18,065)
Income taxes	5,652	3,180 (3)	7,257
Net Income	$ 11,989	$(4,868)	$ 7,121

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(1) Represents estimated equity earnings from Loy Yang A until May 14, 1997, based upon historical data adjusted for differences due to acquisition accounting primarily depreciation charges, finance charges and adjustments to income tax expense. Equity earnings of Loy Yang A from May 15 until June 30 were $1,061. This amount is summarized in the Historical column of Equity in earnings of unconsolidated affiliates.

(2) Represents interest expense on $250 million principal amount of the Old Notes until May 14 at a rate of 7.5% per annum. Interest of $2,414 on the Old Notes from May 15 until June 30 is in the Historical column.

(3) Net tax benefit derived from interest expense on the Old Notes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with NRG's consolidated financial statements appearing elsewhere in this Offering Memorandum. In addition, as a result of the recent Loy Yang acquisition, NRG's future results could differ significantly from NRG's historical results. See "Selected Pro Forma Condensed Financial Data" and "Business."

GENERAL

NRG has developed a complex organizational structure involving foreign holding companies, corporations, partnerships and joint ventures through which NRG holds interests in its international projects. These entities are organized to maximize available cash flows (by reducing and deferring foreign and U.S. taxes) and to reduce current and deferred taxes. As part of NRG's global tax strategy, NRG intends to maintain offshore, for permanent reinvestment in other projects, its dividends and distributions from foreign investments, except to the limited extent required to make payments of interest or principal on loans from NRG. Any repatriation of dividends from foreign investments may result in adverse U.S. income tax consequences.

NRG's policy is to pay for offshore development expenses from available offshore cash. NRG generally funds offshore investments as equity, which can come from a variety of sources, including capital infusions from NSP, borrowings by NRG and internal cash generation. In certain circumstances, a portion of project equity funding is treated as a loan by NRG to the project subsidiary or affiliate on market-based interest rate and repayment terms.

In light of NRG's global tax policy as described above, cash flows from ongoing domestic operations and repayments of principal and interest by foreign project subsidiaries and project affiliates to NRG are expected to be the primary source of cash to service NRG's corporate obligations, including with respect to the Notes. To date, NRG's consolidated operating revenues from domestic operations have been derived primarily from the production and transmission of thermal energy (steam and chilled water) and from the operation of resource recovery facilities that process MSW into RDF. Other operating revenues arose from fees earned in providing management and engineering services to a number of operating facilities. NRG's operating expenses also are largely attributable to domestic activities except for general, administrative and development expenses, which in 1994, 1995 and 1996 were incurred primarily in pursuit of international investment and acquisition activities.

NRG accounts for investments in projects where ownership is between 20% and 50%, and where there is no effective and legal control, using the equity method of accounting. Under the equity method, NRG's investment in an entity is recorded on the balance sheet at cost and is adjusted to recognize NRG's proportional share of all earnings or losses of the entity. Distributions received reduce the carrying amount of NRG's investment in the entity. For income statement purposes, NRG records as equity in earnings its proportional share of net income or losses which are attributable to those projects that are accounted for using the equity method. Certain reclassifications have been made to the 1994 financial data included herein to conform to the 1995 and 1996 presentation. These reclassifications had no effect on net income or stockholder's equity as previously reported.

The costs of developing a project are expensed until the project meets the major milestones of (1) a signed power purchase agreement or the equivalent

and (2) approval by the Board of Directors of NRG. There were several projects under development at June 30, 1997 that met NRG's policy for capitalization of development costs. At June 30, 1997, NRG had a total of $12.4 million in capitalized costs related to Alto Cachopoal ($0.7 million), Collinsville ($1.1 million), Kladno ($8.7 million), Millenium-Morris ($0.1 million) and West Java ($1.9 million).

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1996

For the six months ended June 30, 1997, NRG had operating revenues of $56.5 million, compared to operating revenues of $47.3 million for the six months ended June 30, 1996, an increase of 19%.

NRG's operating revenues from wholly-owned operations for the period ended June 30, 1997 were $42.7 million, an increase of $7.3 million, or 21%, over the same period in 1996. The increase was primarily attributable to increases in MEC sales volume, rates charged to customers and pass-through fuel costs, management fee and cost reimbursement revenue from NRG wholly-owned service subsidiaries, and reduced gas curtailment at Grand Forks AFB. Revenues from the thermal business increased $3.0 million and the RDF business increased $2.2 million, due to increases in MSW deliveries at the Newport Facility. For the six months ended June 30, 1997, revenues from wholly-owned operations consisted primarily of revenue from district heating and cooling (40%), resource recovery activities (34%), other thermal projects (18%) and NEO (2%).

Equity in earnings of unconsolidated project affiliates was $13.8 million for the six months ended June 30, 1997 compared to $11.9 million for the six months ended June 30, 1996, an increase of 16%. New revenue sources from Loy Yang, NRGG and COBEE provided equity earnings of $1.1 million, $1.7 million and $0.8 million, respectively, for the period ended June 30, 1997. Additionally, new equity investments in Latin Power and NEO contributed an additional $2.1 million in equity income in the first half of 1997.

Cost of operations in wholly-owned operations was $22.7 million for the six months ended June 30, 1997, an increase of $4.6 million, or 25%, over the same period in 1996, due primarily to increased MEC sales volume, service labor costs and fuel costs. Cost of operations as a percentage of revenues from wholly-owned operations increased to 53% from 51% primarily because of higher fuel and labor costs.

General, administrative and development costs were $18.0 million for the six months ended June 30, 1997, compared to $18.3 million for the six months ended June 30, 1996, nearly unchanged. Included in this category are business development and corporate costs.

Interest expense for the six months ended June 30, 1997, as compared with the same period in 1996, increased by $3.9 million, from $7.3 million to $11.2 million. This increase primarily was due to the issuance of $125 million aggregate principal amount of 7.625% Senior Notes Due 2006 (the "1996 Senior Notes") at the end of January 1996. The 1996 Senior Notes were outstanding the entire half of 1997 compared to five months in 1996. In addition, interest associated with the issuance of the 7 1/2% Senior Notes due 2007 was $1.5 million.

Net income for the six months ended June 30, 1997, was $12.0 million, an increase of $5.5 million, or 84%, compared to net income of $6.5 million in the same period in 1996. This increase was due to the factors described above.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

For the year ended December 31, 1996, NRG had operating revenues of $104.5 million, compared to operating revenues of $87.8 million in 1995, an increase of 19%. NRG's operating revenues from wholly-owned operations for the year ended December 31, 1996 were $71.6 million, an increase of $7.5 million, or 12%, over the prior year. The increase was primarily attributable to continued expansion of NEO's methane gas business and increased revenues from MEC. For the year ended December 31, 1996, revenues from wholly-owned operations consisted primarily of revenue from district heating and cooling (39%), resource recovery activities (33%), other thermal projects (19%) and NEO (5%).

Equity in earnings of unconsolidated project affiliates, excluding gains on project termination settlements, was $32.8 million for the year ended December 31, 1996, compared to $23.6 million for the year ended December 31, 1995, an increase of 39%. In 1996, new revenue sources from the Schkopau and NRGG projects provided equity earnings of $6.4 million and $2.3 million, respectively. Additionally, Latin Power provided $1.6 million of increased equity earnings in 1996 as compared to 1995 because of the startup of a new project. These were offset by an expected decrease in equity earnings of $9.2 million for the MIBRAG mining and power generation project, primarily due to expected decreases in coal and briquette sales. Equity in earnings of Gladstone was $10.8 million in 1996, down slightly from 1995 earnings of $11.2 million. Equity in earnings in 1996 and 1995 reflect an investment write-down of $1.5 million and $5.0 million, respectively, relating to the enhanced coal project of NRG's wholly-owned subsidiary, Scoria, Inc. ("Scoria"). On December 31, 1996, NRG's investment balance in the Scoria

project was reduced to zero. Scoria Incorporated and Western SynCoal Co., a subsidiary of Montana Power Co., completed construction in January 1992 of a demonstration coal conversion plant designed to improve the heating value of coal by removing moisture, sulfur and ash. The plant, located in Montana, has the ability to produce 300,000 tons of clean coal annually which, when burned, produces emissions in compliance with the Clean Air Act. The fuel may be an alternative to scrubbers for some energy companies. Testing of the plant ended in August 1993 and commercial operations began at that time. NRG's net capitalized investment in the Scoria coal project was written down by $3.5 million in 1994, $5.0 million in 1995 and final write-off of $1.5 million in 1996. The write-downs were due to reductions in expected future operating cash flows from the project and an overall economic assessment of the project. On August 31, 1997, Scoria's 50% interest in the project was liquidated by the project partnership in exchange for a liquidation payment of $100.

Cost of operations in wholly-owned operations was $36.6 million in 1996, an increase of $4.1 million, or 12.6%, compared to 1995, due primarily to increased fuel costs resulting from increased MEC sales volume and per unit fuel prices. Cost of operations as a percentage of revenues from wholly-owned operations remained constant at 51% for 1995 and 1996.

General, administrative and development costs were $39.2 million in 1996, compared to $34.6 million in 1995, an increase of $4.6 million, or 12.9%. The majority of the increase from 1995 to 1996 was due to additional general and administrative expenses incurred in the growth and development of NEO totaling $5.8 million, in contrast with NEO's general and administrative expenses of $1.8 million for the prior year. Business development expenses for the year ended December 31, 1996 totaled $19.4 million, as compared with $17.6 million for the same period in 1995.

Other income, net increased by $4.6 million in 1996 due primarily to additional interest income earned from investing the proceeds of the 1996 Senior Note Offering, which was completed in January 1996.

The effective tax rate (benefit) for the year ended December 31, 1996 was (39.5%), as compared to 22% for the same period ended December 31, 1995. The decrease in the effective tax rate in 1996 was due to a change in NRG's income sources, with more earnings derived from U.S. operations in 1995, primarily the $29.9 million pre-tax gain on the disposition of the San Joaquin power purchase agreements. Because of NRG's intention to reinvest earnings of foreign operations offshore, no provision was recorded for income taxes due upon repatriation.

Net income for the year ended December 31, 1996 was $20.0 million, a decrease of $11.2 million, or 36%, compared to net income of $31.2 million in 1995. This decrease was due to the fact that $29.9 million of that 1995 net income was attributable to the one-time payment for the buy-out of the San Joaquin power sales contract in that year, as well as to the other factors described above.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

For the year ended December 31, 1995, NRG had operating revenues of $87.8 million, compared to operating revenues of $91.1 million in 1994, a decrease of 4%. NRG's operating revenues from wholly-owned operations for the year ended December 31, 1995, were $64.2 million, essentially unchanged from $64.0 million in the prior year. Revenues from wholly-owned operations consisted primarily of revenue from district heating and cooling (39%), resource recovery activities (36%), other thermal projects (21%) and NEO (1%).

Equity in earnings of unconsolidated project affiliates was $23.6 million for the year ended December 31, 1995, compared to $27.2 million for the year ended December 31, 1994, a decrease of 13%. Equity in earnings of $22.2 million from the MIBRAG mining and power generation project increased $2.8 million in 1995 primarily due to increased power and coal sales. Equity in earnings of Gladstone was $11.2 million in 1995 as compared to $7.7 million for the prior year, due to the inclusion of a full year's earnings in 1995 compared to nine months of the prior year. San Joaquin Cogeneration earnings decreased from $6.1 million in 1994 to $2.0 million in equity earnings in 1995 because of the shutdown of the facilities at the end of February 1995, and the termination of the power purchase agreements with Pacific Gas & Electric ("PG&E"). The Sunnyside waste coal facility acquired in late

1994 experienced initial operating problems, a six-week shutdown for major repairs and refurbishments, and a reduction in power revenue due to lower than anticipated avoided costs of the power purchaser, PacifiCorp, resulting in a loss of $2.7 million in 1995 equity in earnings. Finally, equity in earnings in 1995 reflects an investment write-down of $5.0 million related to Scoria while 1994 equity in earnings reflects investment write-downs of $3.5 million for Scoria and $1.5 million related to the proposed Louisiana Energy Services ("LES") uranium enrichment facility in which NRG owns a 6.73% interest. NRG's investment in LES has been reduced to zero.

Cost of operations in wholly-owned operations was $32.5 million in 1995, a decrease of $2.3 million, or 6.7%, compared to 1994, due primarily to lower resource recovery landfill charges and reduced district heating fuel costs. Cost of operations as a percentage of revenues from wholly-owned operations decreased to 51% in 1995 from 55% in 1994.

General, administrative and development costs were $34.6 million in 1995, as compared to $20.0 million in 1994, an increase of $14.6 million, or 73.0%. Business development expenses made up approximately $8.8 million of this increase. The balance of the increase was attributable to establishing and maintaining NRG's foreign offices and domestic support functions. In 1995, NRG aggressively expanded staff and activity in seeking new projects. Project development activity was redirected and expanded in 1995 as NRG completed its initial investments in the MIBRAG, Gladstone and Schkopau projects in 1994. During 1994, some development costs were capitalized in these projects until financial close was achieved. Conversely, during 1995, NRG expensed the costs

of pursuing a number of projects requiring the payment of significant upfront fees and expenses, including an investment opportunity that required expenditure of significant legal fees to submit a competing plan of reorganization in the bankruptcy court proceeding for O'Brien Energy (in which NRG acquired a 41.86% interest in 1996). Most of these costs were expensed because these projects did not meet NRG's requirements for capitalization.

Equity in gain from project termination settlements in 1995 included a one-time pre-tax gain of $29.9 million related to the settlement and termination of the San Joaquin Valley power purchase agreements with PG&E. In 1994, NRG and its partner in the Michigan Cogeneration Partners Limited Partnership agreed to terminate a power sales contract with Consumers Power Company. The contract related to a 65 MW cogeneration facility being developed in Michigan. Due to the agreement to terminate the contract, NRG recorded a one-time pre-tax gain of $9.7 million in 1994.

Other income, net increased $3.5 million in 1995 due primarily to additional interest income from project notes receivable and short-term investments.

The effective tax rate for the year ended December 31, 1995 was 22%, as compared to 7.7% for the same period ended December 31, 1994. This increase from 1994 to 1995 was primarily due to the fact that a greater portion of NRG's income was derived from United States sources in 1995, primarily as a result of the $29.9 million pre-tax gain on the disposition of the San Joaquin power purchase agreements. Because of NRG's intent to reinvest earnings of foreign operations offshore, no provision was recorded for income taxes that would be due on repatriation.

Net income for the year ended December 31, 1995, was $31.2 million, an increase of $1.7 million, or 6%, compared to net income of $29.5 million in 1994. This increase was due to the factors described above.

FINANCIAL RESULTS OF INVESTMENTS IN PRINCIPAL PROJECTS

The following sets forth certain information with respect to the results of investments in principal projects. For a description of these projects, see "Business -- Description of NRG's Projects."

	EQUITY IN EARNINGS					
	YEAR ENDED DECEMBER 31,			SIX MONTHS ENDED JUNE 30,		
	(DOLLARS IN MILLIONS)					
PROJECT	1994	1995	1996	1996	1997	PERCENTAGE OWNERSHIP INTEREST
MIBRAG (1)	$19.4	$22.2	$13.1	$4.9	$4.5	33.3
Gladstone	7.7 (2)	11.2	10.8	5.5	6.4	37.5
Schkopau	0.0	0.0 (3)	6.4	1.7	3.1	20.6
Kladno (4)	*	0.0	(0.3)	0.1	(.3)	34.0
Latin Power ..	(0.3)	0.0	1.6	1.1	0	4-9
COBEE	*	*	0.1 (5)	0.0	.8	58.0
NRGG	*	*	2.3	*	1.7	41.9
NEO	(0.2)	(0.1)	(0.5)	0.1	2.3	50-100

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* Not owned during this period.

(1) Earnings are expected to decrease in 1997 and 1998 due to mine refurbishment and reduced coal sales. However, in 1999, coal sales are expected to increase with the expected startup of the first of two 800 MW generating units being constructed nearby at Lippendorf. Contracts to supply coal to new Lippendorf facility have been executed as part of the MIBRAG transaction.

(2) Purchased in March 1994.

(3) Earnings commenced in the first quarter of 1996 when the first unit was brought on-line.

(4) In 1994, NRG acquired a 26.5% ownership interest in a 28 MW facility. NRG's ownership interest increased to 34% in May 1997.

(5) Based on twelve days of ownership and operation.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $5.1 million for the six months ended June 30, 1997, as compared to $3.3 million for the same period of 1996, a change of $1.8 million. The primary differences between the first half of 1997 and the same period in 1996 were increased net income of $5.5 million and changes in deferred income taxes, investment tax credits, and working capital items of $9.5 million, which were offset by an increase in undistributed equity in operating earnings of $13.1 million.

Net cash flow from operating activities was $4.1 million in 1996. Principal components of cash flow from operating activities were net income of $20.0 million, depreciation and amortization of $8.4 million and changes in working capital of ($4.3) million. Non-cash adjustments that reduced cash flow from operating activities consisted primarily of $17.8 million of undistributed equity in operating earnings of unconsolidated project affiliates.

Net cash flow used by operating activities was $5.1 million in 1995. Principal components of cash flow from operating activities were net income of $31.2 million, depreciation and amortization of $8.3 million and changes in working capital items of $9.0 million. Non-cash adjustments that reduced cash flow from operating activities consisted primarily of $29.9 million of undistributed equity in gain from the San Joaquin project termination settlement.

Net cash flow from operating activities was $12.4 million in 1994. Principal components of cash flow from operating activities were net income of $29.5 million, depreciation and amortization of $8.7 million and changes in working capital items of ($6.1) million. Other adjustments that reduced cash flow from operating activities consisted primarily of $18.5 million of undistributed equity in operating earnings of unconsolidated project affiliates and $1.1 million of cash related to deferred taxes and cash used by changes in other assets.

Net cash used for investing activities for the six months ended June 30, 1997 was $325.3 million as compared to $144.7 million for the same period in 1996. $279.1 million was invested in projects in the first half of 1997, as compared to $48.2 million in the same period in 1996. NRG's project investments

in the first half of 1997 included $257.1 million in Loy Yang, $6.2 million in NRG San Diego, $3.4 million in NEO, $7.5 million in Energy Development Limited ("EDL"), $2.0 million in Latin Power, and $2.0 million in Kladno. NRG also increased its outstanding loans to international projects (a $4.4

million note to Enfield and $31.7 million in notes related to COBEE) creating a cash flow use of $35.8 million in the first half of 1997 as compared to a $97.6 million in the same period in 1996. Capital expenditures totalled $15.1 million for the six months ended June 30, 1997, as compared to $4.9 million in the same period one year earlier. This amount is primarily attributable to capital investments in Neo of $12.0 million, in the MEC Fairview Plant and the MEC Federal Reserve Plant of $3.1 million. At June 30, 1997, NRG's restricted cash balance was $.3 million, while at June 30, 1996, it was $19.5 million. The decline in restricted cash is due to the change in the market value of the company's foreign exchange swaps, and the posting of an $8 million Letter of Credit which replaced the collateral requirement. The restricted cash balance change for the periods ended June 30, 1997 and 1996 impacted cash flow by $17.3 million and ($9.7) million, respectively. For the period ended June 30, 1997, NRG received $6.7 million from its sale of a portion of its investment in COBEE. For the same period in 1996, NRG received $15.7 million of proceeds related to the termination of the SJVEP Facilities (as hereinafter defined) power purchase agreement. The change in the Currency Transactions is due to decline in the value of the Australian dollar and the German Mark as compared with the U.S. dollar.

Cash used for investing activities in 1996 included $140.6 million in equity investments in projects, $36.6 million in loans to projects, and $24.6 million in capital expenditures related to wholly-owned operations. The primary components of NRG's 1996 project investments include $81.8 million for its investment in COBEE, $28.8 million for the 41.86% investment in NRGG and $7.5 million for the purchase of certain biomass assets from O'Brien (subsequently NRGG). NRG's net increase in loans to projects of $36.6 million was primarily due to a loan to NRGG of $14.4 million and the purchase of the senior debt of MCPC. NRG made total capital expenditures in 1996 of $24.6 million and expects to make capital expenditures of approximately $10 million in 1997, $7.7 million of which were made in the three months ended March 31, 1997. Additionally, cash flows from investing activities in 1996 included $15.7 million of cash distributed from SJVEP related to the project termination settlement. The project termination resulted in a pre-tax gain of $29.9 million in 1995, at which time NRG received a $14.2 million distribution. All other cash distributions from the project are included in operating cash flow, while the distributions from project termination are included as cash flow from investing activities.

Cash used for investing activities in 1995 included $25.8 million in equity investments in projects, $35.4 million in loans to projects, and $11.0 million in capital expenditures related to wholly-owned operations. In 1995 NRG invested $25.8 million in several projects, including $11.0 million in the Schkopau project, $4.1 million in the Latin Power Project, $3.8 million in the Kladno project, and $3.3 million in the North America Thermal project. In addition, NRG loaned additional funds of $35.4 million to operating projects, including a $27.9 million loan to the Schkopau project.

Cash used for investing activities in 1994 included $102.1 million in equity investments in projects and $4.4 million in loans to projects, and $5.8 million in capital expenditures related to wholly-owned operations. In 1994, NRG invested this $102.1 million in several projects including, $64.9 million in the Gladstone project, $18.2 million in the Schkopau project, $11.5 million in the Sunnyside project, and $10.6 million in the MIBRAG project. In addition, NRG provided $13.8 million of restricted cash deposits to collateralize foreign currency hedging activities and letters of credit issued in connection with competitive bids.

Net cash flows from financing activities for the six months ended June 30, 1997 were $330.6 million, which was primarily made up of the $81.5 million equity investment by NRG's parent company, NSP, to fund NRG's investment in Energy Developments Limited ("EDL") and Loy Yang. This compares to $25 million received during the same period one year earlier. Proceeds from the issuance of long-term debt, primarily the 1997 Senior Notes, totalled $250.3 million as compared to $122.7 million in cash proceeds from the issuance of the 1996 Senior Notes. NRG incurred $2.2 million and $2.4 million in

financing costs in connection with the 1997 Senior Notes and the 1996 Senior Notes, respectively; which NRG is capitalizing and amortizing over the ten-year life of the notes. For the balance of 1996, cash flows from financing activities included an $80 million equity contribution from NSP to NRG for the purchase of COBEE. In 1994, cash flows from financing included an investment of $103.9 million from NSP. The proceeds of the capital infusion were used for investments in Gladstone ($64.9 million), Schkopau ($18.2 million), MIBRAG ($10.6 million) and Sunnyside ($11.5 million).

On January 29, 1996, NRG issued the 1996 Senior Notes in a transaction exempt from registration under the Securities Act. The 1996 Senior Notes were issued to fund some or all of NRG's equity investments in Schkopau and Latin Power, to pay a portion of the consideration for NRG's acquisition of interests in Collinsville and in O'Brien (for reorganization as NRGG), to make equity investments in Kladno and West Java, and for general corporate purposes, including investments in new projects. The 1996 Senior Notes are senior unsecured obligations of NRG and rank pari passu with all other senior unsecured indebtedness of NRG, including the Notes. The 1996 Senior Notes have terms similar to the New Notes. See "Certain Indebtedness" and "Description of Notes."

As of June 30, 1997, NRG's consolidated financial statements contained long-term debt (excluding current maturities) of $458.3 million, $125 million of which is represented by the 1996 Senior Notes. The 1996 Senior Notes have terms substantially similar to the Notes, except the maturity date is in January 2006. The $248.3 million increase from the same period one year earlier is due to $250.3 million of new debt issuance less $2.0 million of debt reclassed to short-term. As of June 30, 1997, annual maturities of long-term debt ranged from $3.9 million to $5.0 million in the five-year period ending December 31, 2001. See "Certain Indebtedness" and "Description of Notes."

NRG is committed to additional equity investments of approximately $214 million for 1997-2001, approximately $49 million of which is committed for 1997, for various international power generation projects. In addition, in 1996, NRG provided a $10 million loan commitment to a wholly-owned project subsidiary of NRGG, in order for the NRGG project subsidiary to fund its capital contribution to Grays Ferry, a cogeneration project currently under construction. As of August 31, 1997, NRG lent Grays Ferry $4.5 million as part of its loan commitment. As part of the 1996 loan agreement, NRG was granted the option to convert $3 million of the loan into common equity of NRGG. NRG exercised this option on September 19, 1997. Also in 1996, NRG executed an agreement whereby NRG is obligated to provide NRGG power generation investment opportunities in the United States over a three-year period. These projects, over the three-year term, must have an aggregate equity value of at least $60 million or a minimum of 150 net MW. In addition, NRG has committed to finance NRGG's investment in these projects to the extent funds are not available to NRGG on comparable terms from other sources. (See Note 13 of Notes to Consolidated Financial Statements for further discussion of NRG's commitments.) NRG expects to meet these cash requirements with proceeds from the issuance of debt or equity, including equity contributions from NSP, and internally generated cash.

In May 1997, NRG acquired a 25.37% equity interest in Loy Yang A. See "Business -- Loy Yang Power." In order to finance its equity investment in this acquisition and related financing costs, NRG borrowed $200 million in short-term debt pursuant to the Bridge Financing, which it used together with an investment of $60.9 million from NSP and cash on hand. The net proceeds from the Offering were used to refinance the Bridge Financing. See "Use of Proceeds."

NRG has entered into a $175 million revolving credit facility with a syndicate of banks led by ABN AMRO, which matures on March 17, 2000. Proceeds from the facility will be used for general corporate purposes, including

letters of credit and interim funding for NRG project investments.

The facility allows for LIBOR and Base rate borrowing depending upon the days notice required and the term of drawing. The applicable margin is based upon the rate option selected and the assigned ratings of NRG. Pursuant to the terms of the agreement, NRG is restricted from creating liens on its assets, is prohibited from merging except under certain circumstances and must maintain a specified minimum net worth. Failure to comply with these restrictive covenants could result in an event of default. Other events of default include nonpayment of principal or interest, NSP's failure to own majority of outstanding voting stock of NRG, certain cross-defaults, and certain events of bankruptcy.

NRG Energy Center, Inc. ("NRG Energy Center") expects to enter into a master shelf agreement during October 1997, pursuant to which NRG Energy Center may issue $30 million in term notes with maturities no later than June 2017. The master shelf revolving credit facility could also provide for up to $5 million of short-term borrowings. This facility is expected to be recourse only to NRG Energy Center and is intended to provide financing for MEC.

As part of NRG's global tax strategy, NRG intends to maintain offshore, for permanent reinvestment in other foreign projects, earnings from foreign investments. For this reason, NRG intends to utilize the earnings in its domestic operations to make the payments of principal and interest on the Senior Notes. These earnings will include payments of interest and principal to be received from its wholly-owned Dutch project subsidiary, NRGenerating International, B.V., with respect to loans from NRG. Although dividends and management fees to NRG and its subsidiaries from partnerships in which NRG invests are subject to restrictions in some cases, NRG currently expects that cash generated internally and funds from borrowings described above will provide sufficient funds for operating activities. However, there can be no assurance that available funds will be sufficient for such purposes. Because substantially all of the operations of NRG are conducted by its project subsidiaries and project affiliates, NRG's cash flow and its ability to service its indebtedness, including its ability to pay the interest on and principal of the Senior Notes when due, are dependent upon cash dividends and distributions or other transfers from its project and other subsidiaries and project affiliates to NRG.

IMPACT OF INFLATION, INTEREST RATES, EXCHANGE RATES AND ENERGY PRICES

NRG attempts, whenever practicable, to hedge certain aspects of its international project investments against the effects of inflation and fluctuations in interest rates and energy prices. To date, NRG has generally structured the energy payments of its power purchase agreements to adjust with the same price indices as contained in its contracts with the fuel suppliers for the corresponding projects. In some cases, a portion of revenues is associated with operation and maintenance and is indexed to adjust with inflation.

As of June 30, 1997, NRG had $463.5 million of foreign currency denominated assets that were hedged by seven forward foreign currency exchange contracts with a notional value of $182 million, including $83 million of Australian dollar hedges and $94 million of German mark hedges, with maturities ranging from two to ten years. In connection with these forward foreign currency exchange contracts, cash collateral of $7.5 million was required at June 30, 1997. In July 1997, NRG changed its policy of hedging foreign currency denominated investments as they were made, to a policy of hedging foreign currency denominated cash flows, over a projected 12-month period. As a result of this change in hedging policy, NRG terminated the seven foreign currency swap agreements on July 29, 1997. Such terminations resulted in cash payments to NRG without any earnings impact. Consistent with prior policies, NRG is not hedging future earnings and does not speculate in foreign currencies.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," was issued. In addition, in June 1997 SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," was also issued. As both SFAS No. 130 and No. 131 are effective for fiscal years beginning after December 15, 1997, NRG's 1998 annual report to shareholders will include the disclosures required by these new standards. Management believes the adoption of SFAS No. 130 and SFAS No. 131 will not have a material effect on NRG's financial statements.

BUSINESS

INTRODUCTION

NRG is one of the leading participants in the independent power generation industry. Established in 1989 and wholly-owned by Northern States Power Company ("NSP"), NRG is principally engaged in the acquisition, development and operation of, and ownership of interests in, independent power production and cogeneration facilities, thermal energy production and transmission facilities and resource recovery facilities. The power generation facilities in which NRG currently has interests (including those under construction and Loy Yang A) as of October 1, 1997 have a total design capacity of 7,193 megawatts ("MW"), of which NRG has or will have operational responsibility for 4,750 MW and net ownership of or leasehold interests in 2,201 MW. In addition, NRG has substantial interests in district heating and cooling systems and steam generation and transmission operations; as of December 31, 1996, these thermal businesses had a steam capacity of approximately 3,550 million British thermal units ("mmBtus"). NRG's refuse-derived fuel ("RDF") plants processed more than 808,000 tons of municipal solid waste into approximately 644,000 tons of RDF in 1996.

STRATEGY

NRG intends to continue to grow through a combination of acquisitions and greenfield development of power generation and thermal energy production and transmission facilities and related assets in the United States and abroad. NRG believes that its facility operations and engineering expertise, fuel and environmental strategies, labor and government relations expertise and legal and financial skills give NRG a competitive advantage in the independent power market. NRG also believes that its policy of meeting or exceeding applicable environmental regulatory standards and its environmental compliance record will give it an advantage as regulators continue to impose increasingly stringent environmental requirements on the operation of power generation facilities. In addition, NRG continues to have access to technical and administrative support from NSP on a contract basis to augment its own expertise. NRG believes the knowledge and expertise it has gained in the financial and legal restructuring of its existing facilities, as well as its reputation with respect to environmental compliance and labor relations, can be effectively employed in the development of both domestic and international greenfield projects.

In the United States, NRG's near-term focus will be primarily on the acquisition of existing power generation capacity and thermal energy production and transmission facilities, particularly in situations in which its expertise can be applied to improve the operating and financial performance of the facilities. NRG intends to focus its domestic development activities primarily on the acquisition or development of facilities in excess of 100 MW and to pursue smaller projects when it has the opportunity

to combine several smaller projects into a larger transaction. NRG is also working with several industrial companies to develop energy projects that would provide both electricity and steam for their production facilities. In addition, to the extent that the replacement of aging power generating capacity or growth in demand creates the need for new power generation facilities in the United States, NRG intends to pursue opportunities to participate in the development of such facilities. NRG is also studying the opportunities that may be created by the current restructuring of the domestic electric utility industry, particularly the divestiture by some utility companies of their generating assets.

In the international market, NRG will continue to pursue development and acquisition opportunities in those countries in which it believes that the legal, political and economic environment is conducive to increased foreign investment. Once it has developed one project in a country, NRG uses that as a base to develop other projects in that same country or region, leveraging its experience and knowledge to enhance its likelihood of success in the area. NRG intends to continue to capitalize on opportunities created by the privatization of existing government-owned generating capacity. In addition, due to the significant existing demand for new power generating capacity in the international market, NRG intends to engage in the development of international greenfield projects. NRG intends to focus its international development activities primarily on the acquisition or development of facilities with capacity in excess of 100 MW and to pursue smaller projects when it has the opportunity to combine several smaller projects into a larger transaction. NRG believes that the global market will continue to provide attractive

investment opportunities to NRG as the countries that have initiated the privatization of their power generation capacity and have solicited bids from private companies to purchase existing facilities or to develop new capacity continue their privatization programs and other countries begin similar privatization efforts.

NRG's acquisition and development strategy is based upon the pursuit of opportunities located in countries that are expected to meet certain project-specific and market criteria. These criteria include fuel type, facility size, form of ownership or control, type of transaction (privatization or greenfield) and committed capacity compared to projected market demand. The evaluation process also incorporates political and business climate criteria that include a favorable legal and regulatory environment, ability to attract financing and economic outlook. NRG's goal is to focus on countries that provide a combination of need for additional generation capacity and positive political, business and economic factors.

NRG expects to acquire or develop most domestic and international projects on a joint venture basis. Where appropriate, NRG will include a local or host country partner or a partner with substantial experience in or connections to the area. By doing so, NRG expects to gain a number of advantages, including technical expertise possessed by others, greater knowledge of and experience with the political, economic, cultural and social conditions and commercial practices of the region or country where the project is being developed, and the ability to leverage NRG's human and financial resources. A local partner also may, among other things, assist in obtaining financing from local capital markets as well as building political and community support for the project. NRG expects such joint ventures will enable it to share the risks associated with the acquisition and development of larger projects. Joint acquisition and development of future projects also should further reduce NRG's financial risk by building a more diversified portfolio of projects.

Although NRG exercises flexibility in structuring its investments in projects, NRG's goal is to own a 20% to 50% equity interest in, and have operating control or influence over, the projects in which it invests. However, NRG may in some instances be willing to modify these targets for a

particular project if it determines that strategic considerations and anticipated returns, when combined with other factors, such as the ability to exercise "negative control" (i.e., the ability to control material project decisions by exercising a veto right) or the ability to exercise oversight authority in the development or operation of a project, justify an investment in that project. Alternatively, NRG may consider investments or projects in which it is the sole or a majority owner or in which it owns less than a 20% equity interest. See "Risk Factors -- Risks Involved in Making Minority Investments in Projects."

NRG intends to pursue the acquisition and development of natural gas-fired power generation facilities where appropriate, to complement its existing and anticipated future investments in coal and other solid fuel-fired facilities. NRG currently holds no interest in, and has no present intention of investing in, any nuclear generating facility.

As part of NRG's global tax strategy, NRG intends to maintain its earnings from foreign investments offshore, for permanent reinvestment in other foreign projects. For this reason, NRG intends to utilize the earnings in its domestic operations to make the payments with respect to the Notes. These earnings are expected to include payments of interest and principal to be received from its wholly-owned Dutch subsidiary, NRGenerating International, B.V. ("NRGBV") with respect to loans from NRG to that company.

COMPETITION

The demand for power in the United States traditionally has been met by utilities constructing large-scale electric generating plants under cost-of-service based regulation. The enactment of PURPA in 1978 spawned the growth of the independent power industry which expanded rapidly in the 1980s. The initial independent power producers to enter the market were an entrepreneurial group of cogenerators and small power producers who recognized the business opportunities offered by PURPA. This initial group of independent power producers was later joined by larger, better capitalized companies, such as subsidiaries of fuel supply companies, engineering companies, equipment manufacturers and affiliates of other industrial companies. In addition, a number of regulated utilities

created subsidiaries (such as NRG) which compete with the independent power producers. Some independent power producers specialize in market niches, such as a specific technology or fuel (for example, gas-fired cogeneration, waste-to-energy, hydropower, geothermal, wind, solar, wood, coal and conservation) or a specific region of the country where they believe they have a market advantage.

Although NRG is one of the leading participants in the independent power industry, certain other independent power producers and utility affiliates have significantly larger capital resources available to them on a stand-alone basis than NRG. NRG's competitors are major international independent power producers worldwide, which include, among others, CalEnergy, CMS Generation Co., Cogentrix Energy, Inc., Dominion Energy, Enron Development Corp., Edison Mission, Inc., National Power plc, PowerGen plc, Southern Electric International, Inc. and The AES Corporation. Such competitors compete with NRG with regard to pricing terms, quality of service and experience.

PENDING ACQUISITIONS AND PROJECTS UNDER DEVELOPMENT

NRG has a number of projects in development and is in various stages of negotiations for the acquisition of power and steam generating capacity in the United States and abroad. There can be no assurance that the acquisition or development of any or all of these projects will in fact be consummated, or if consummated, that the projects will remain in the form or occur in the

manner described in this Prospectus.

WEST JAVA

A joint venture among NRG, Ansaldo Energia SpA, a major Italian industrial company ("Ansaldo"), and P.T. Kiani Metra, an Indonesian industrial company ("PTKM"), is developing a 400 MW coal-fired power generation facility in West Java, Indonesia through P.T. Dayalistrik Pratama ("PTDP"), a limited liability company created by the joint venturers. Each of NRG and Ansaldo have an ownership interest of 45% in PTDP and PTKM has an ownership interest of 10%.

PTDP signed a Power Purchase Agreement (the "PPA") with P.T. PLN (Persero) ("P.T. PLN"), an instrumentality of the Government of Indonesia, on November 13, 1996. Under the PPA, PTDP must close and draw on construction financing no later than January 12, 1998 or be subject to termination. Furthermore, in certain circumstances of default the PPA gives P.T. PLN an option to purchase the project prior to commercial operation at a price designed to give NRG and its partners a fixed rate of return on their committed equity investments and, after commercial operation, at a price based on the net present value of future project cash flows.

PTDP has executed construction contracts pursuant to which Ansaldo will construct the project for a fixed price on a fixed schedule (subject to customary adjustments). Ansaldo is liable for liquidated damages in the event of certain construction delays or defaults. An NRG affiliate will be the operator of the project pursuant to an 18 year operating and maintenance agreement, which provides for reimbursement of the actual operating costs and payment of an annual fee. NRG will guarantee the operator's obligations under this agreement. In June 1997, PTDP signed a coal supply agreement for the project and acquired the land for the plant site.

NRG expects that, upon closing of financing, its total committed equity in PTDP will be approximately $65 million. As of September 15, 1997, NRG has made capital infusions into PDTP totalling $5.63 million. The total project cost is approximately $560 million, which is to be financed by a combination of equity investments, commercial bank debt and capital markets funding. The project is currently expected to be ready for financial closing by the end of 1997, however, in September 1997 the Government of Indonesia announced that the project had been "postponed" and there can be no assurance as to when or whether the Government will allow the project to go forward.

ENFIELD

In December 1996, NRG reached agreement with Indeck Energy Services (Europe) ("Indeck") to take a 50% interest in the Enfield Energy Centre, a 350 MW gas-fired power project in the North London

borough of Enfield. The power station is planned to begin commercial operations in the end of 1999 and is being jointly developed by NRG and Indeck. This power station, like Loy Yang A, will not have a long-term power sales contract, which is no longer available under the current United Kingdom regulatory system. Instead, it will sell its output to the U.K. grid. NRG expects that upon closing of financing, its total committed equity in the Enfield Energy Centre will be approximately GBP 17 million.

ESTONIA

On December 20, 1996 representatives of the Estonian Government, the

state-owned Eesti Energia ("EE"), and NRG signed a Development and Cooperation Agreement ("DCA"). The DCA defines the terms under which the parties are to establish a plan to develop and refurbish the Balti and Eesti Power Plants. Pursuant to the DCA, a business plan for the joint project was submitted in June, 1997. NRG has stated its willingness to invest up to $67.25 million of equity in this project and to assist the joint project in obtaining non-recourse debt in an amount necessary to fund the required capital improvements to the Balti and Eesti Power Plants. Recently the Estonian government announced that it had rejected the business plan of NRG and EE.

ALTO CACHAPOAL

NRG owns a 27.75% interest in the Alto Cachapoal greenfield hydroelectric complex that is under development in central Chile. Alto Cachapoal is a two-stage 390 MW project. In the first 195 MW stage, Alto Cachapoal will sell all of its firm energy to Codelco-El Teniente, the world's largest underground copper mine, pursuant to a 20-year power sales contract. Financial closing for the first stage is expected in 1997. NRG expects that upon closing of financing, its total committed equity in Alto Cachapoal will be approximately $46 million. NRG's partners in the Alto Cachapoal facility are Nordic Power Invest AB (27.75%) and Construtora Andrade Gutierrez S.A. (44.5%).

CAJUN

NRG, together with two other parties, and the Chapter 11 trustee has filed a plan with the United States Bankruptcy Court for the Middle District of Louisiana, to acquire the fossil generating assets of Cajun Electric Power Cooperative of Baton Rouge, Louisiana ("Cajun") for approximately $1.1 billion. The NRG consortium has the support of the Chapter 11 trustee and Cajun's secured creditors. The Court has also received two other competing plans of reorganization for Cajun. All three plans of reorganization are the subject of a confirmation hearing which began on December 15, 1996. NRG expects the confirmation process to conclude in 1997. Under the plan filed with the Court, NRG would hold a 30% equity interest in Louisiana Generating LLC, which would acquire Cajun's 1760 MW of non-nuclear generating assets. NRG's plan of reorganization for Cajun includes an equity investment from NRG of approximately $55 million.

MCPC

In September 1996, through its subsidiary, Oklahoma Loan Acquisition Corp. ("OLAC"), NRG acquired all right, title and interest in the existing senior secured debt of Mid-Continent Power Company, Inc. ("MCPC") from Barclays Bank and The Nippon Credit Bank, at a substantial discount. On June 18, 1997, MCPC filed a Chapter 11 petition in federal bankruptcy court in Tulsa, Oklahoma, and concurrently filed a plan of reorganization proposing to transfer ownership of substantially all of MCPC's assets to OLAC in exchange for forgiveness of debt. NRG is currently engaged in discussions with MCPC and its major customers concerning the proposed plan and a confirmation hearing has been scheduled for late October 1997. NRG is not obligated to make any further investments in MCPC. The project is a gas-fired cogeneration plant with a rated capacity of 110 MW, located in Pryor, Oklahoma. The project sells steam to several industrial customers located in the Mid-America Industrial Park and sells electricity to two Oklahoma utilities.

MILLENIUM

On September 19, 1997, NRG (Morris) Cogen, LLC ("NRGM"), an NRG affiliate, entered into a Construction and Term Loan Agreement with The Chase Manhattan Bank to finance the construction of

a 117 MW cogeneration plant in Morris, Illinois. The project is being developed pursuant to a 25 year Energy Services Agreement between NRGM and Millennium Petrochemicals Inc. ("Millennium") pursuant to which NRGM will supply all of the external steam requirements and substantially all of the electricity requirements for Millennium's polyethylene manufacturing facility in Morris. Millennium has the right to buy out the cogeneration plant for fair market value at certain defined points in the contract term. The project is being constructed by Kiewit Industrial, Co. and is projected to be completed by December 1, 1998. In connection with the financing of this project, NRG has entered into a $22 million equity commitment and a $1.2 million guaranty of certain obligations of NRG Morris Operations, Inc., an NRG affiliate which will operate the project.

DESCRIPTION OF NRG'S PROJECTS

NRG owns interests in power generation and thermal generation projects and other facilities described herein either directly or through project subsidiaries or project affiliates. Each project is located on a site that is owned or leased on a long-term basis by NRG, a project subsidiary or a project affiliate. The ownership or leasehold interest generally is mortgaged to secure project financing obligations, and, in certain instances, to secure the project subsidiary's or project affiliate's obligations under its power purchase agreement.

PROJECT AGREEMENTS

In the past, virtually all of NRG's operating power generation facilities have sold electricity under long-term power purchase agreements. A facility's revenue from a power purchase agreement usually consists of two components: energy payments and capacity payments. Energy payments, which are intended to cover the variable costs of electric generation (such as fuel costs and variable operation and maintenance expense), are normally based on a facility's net electrical output measured in kilowatt hours, with payment rates either fixed or indexed to the fuel costs of the power purchaser. Capacity payments, which are generally intended to provide funds for the fixed costs incurred by the project subsidiary or project affiliate (such as debt service on the project financing and the equity return), are normally calculated based on the net electrical output or the declared capacity of a facility and its availability.

The power purchase agreements for NRG's international projects generally require that payments under such agreements be made in or indexed to United States dollars or a currency freely convertible to United States dollars, such as the Australian dollar or the German mark. NRG currently does not have political risk or currency convertibility and repatriation risk insurance coverage with respect to any of its existing project interests (other than Latin Power project investments). However, where appropriate and if available at reasonable premiums with respect to future project investments, NRG intends to procure insurance against currency inconvertibility and repatriation risks for its equity interests in projects.

A number of the more recent projects in which NRG has acquired or is acquiring an interest do not have long-term power purchase agreements. For example, Loy Yang A does not have such agreements because under the new Australian regulatory scheme, all generators must sell their output to a grid, where the price is established by a neutral regulator based on the market prices during each defined period. The same will be true of Enfield, since the United Kingdom has adopted a similar regulatory scheme. Similarly, the SJVEP Facilities accepted a buy-out of their long-term contracts, so if they recommence operations, it is anticipated that they will be merchant plants. In the case of the Kladno project, where there is a long-term

agreement, the energy price is tied to the market price of electricity rather than to the costs incurred by the project, so the contract does not provide the traditional level of certainty and protection. While these "merchant" projects introduce new risks and uncertainties, and require careful advance analysis of the local power markets, NRG believes that they are becoming increasingly accepted in the independent power market.

Generally, NRG's project subsidiaries and project affiliates that own operating power generation or steam generation facilities purchase fuel under long-term supply agreements or have ownership interests in the fuel source. Of the power generation projects in which NRG has an ownership interest,

ten are fueled with coal or waste coal, four are fueled with biomass, three are fueled with oil, eight are fueled with natural gas, one is fueled with hydro-power and one is fueled with landfill gas and coal seam methane. Through NEO, NRG also has interests in 39 small hydroelectric or landfill gas-fired power generation facilities.

PROJECT FINANCING

As with its existing facilities, NRG expects to finance most of its future projects with some type of debt as well as equity. Leveraged financing permits the development of projects with a limited equity base but also increases the risk that a reduction in revenues could adversely affect a particular project's ability to meet its debt or lease obligations.

NRG has financed its principal power generation facilities (other than Schkopau) primarily with non-recourse debt that is repaid solely from the project's revenues and generally is secured by interests in the physical assets, major project contracts and agreements, cash accounts and, in certain cases, the ownership interest, in that project subsidiary. This type of financing is referred to as "project financing." True project financing is not available for all projects, including some assets purchased out of bankruptcy (such as NRGG), some merchant plants, some purchases of minority stock positions in publicly traded companies (such as EDL) and plants in certain countries that lack a sufficiently well-developed legal system. But even in those instances, NRG may be able to finance a smaller proportion of the total project cost with project financing or may employ debt that is either raised or supported at the corporate level.

Project financing transactions generally are structured so that all revenues of a project are deposited directly with a bank or other financial institution acting as escrow or security deposit agent. These funds then are payable in a specified order of priority set forth in the financing documents to ensure that, to the extent available, they are used first to pay operating expenses, senior debt service and taxes and to fund reserve accounts. Thereafter, subject to satisfying debt service coverage ratios and certain other conditions, available funds may be disbursed for management fees or dividends or, where there are subordinated lenders, to the payment of subordinated debt service.

In the event of a foreclosure after a default, NRG's project subsidiary or project affiliate owning the facility would only retain an interest in the assets, if any, remaining after all debts and obligations were paid. In addition, the debt of each operating project may reduce the liquidity of NRG's equity interest in that project because the interest is typically subject both to a pledge securing the project's debt and to transfer restrictions set forth in the relevant financing agreements. Also, NRG's ability to transfer or sell its interest in certain projects is restricted by certain purchase options or rights of first refusal in favor of its partners or the project's power and steam purchasers and certain change of control restrictions in the project financing documents.

These project financing structures are designed to prevent the lenders from looking to NRG or its other projects for repayment (that is, they are "non-recourse" to NRG and its other project subsidiaries and project affiliates not involved in the project), unless NRG or another project subsidiary or project affiliate expressly agrees to undertake liability. NRG has agreed to undertake limited financial support for certain of its project subsidiaries in the form of certain limited obligations and contingent liabilities. These obligations and contingent liabilities take the form of guarantees of certain specified obligations, indemnities, capital infusions and agreements to pay certain debt service deficiencies. To the extent NRG becomes liable under such guarantees and other agreements in respect of a particular project, distributions received by NRG from other projects may be used by NRG to satisfy these obligations. To the extent of these obligations, creditors of a project financing may have recourse to NRG. The project financing structures therefore generally are described throughout this Offering Memorandum as being "substantially non-recourse" to NRG and its other projects.

NRG's facilities are insured in accordance with covenants in each project's debt financing agreements (if any) and in accordance with NRG's risk management policies. Coverage for each facility generally include workers' compensation, commercial general liability supplemented by primary and excess umbrella liability, and a master property insurance program including property, boiler and machinery (at replacement cost) and business interruption.

OPERATING ARRANGEMENTS

NRG operates each of the projects that it wholly owns or controls. Where NRG has only a minority interest and is not the operator of a project, NRG generally seeks the ability to exert a degree of influence with respect to operation of the project through its joint venture or similar agreement with its partners.

As a condition to participating in privatizations and refurbishments of formerly state-owned businesses, NRG may be required to undertake transitional obligations relating to union contracts, employment levels and benefits obligations for employees, which could delay the achievement of desirable operating efficiencies and financial performance.

SUMMARY OF NRG PROJECTS

As of October 1, 1997, NRG had interests in 27 operating power generation facilities worldwide (not including NEO), including projects under construction. Of these facilities, 12 are located in the United States (648 MW design capacity, with NRG holding 243 MW net ownership), 4 are located in Germany (1,160 MW design capacity, with NRG holding 267 MW net ownership), 4 are located in Australia (4,065 MW design capacity, with NRG holding 1,262 MW net ownership), and two are located in Colombia (299 MW design capacity, with NRG holding 16 MW net ownership), and one is located in each of the Czech Republic (382 MW design capacity, with NRG holding 214 MW net ownership), Jamaica (74 MW design capacity, with NRG holding 7 MW net ownership), Peru (155 MW design capacity, with NRG holding 5.5 MW net ownership), Honduras (80 MW design capacity, with NRG holding 6 MW net ownership) and Bolivia (218 MW design capacity, with NRG holding 126 MW net ownership). In December 1996, NRG and Nordic Power Invest AB acquired 96.6% of the outstanding common shares of Compania Boliviana de Energia Electrica SA -- Boliviana Power Company Limited ("COBEE"), the second largest electric utility company in Bolivia, which will have a design capacity of 218 MW after a 65 MW expansion in 1998. In addition, through its wholly-owned project subsidiary, NEO Corporation ("NEO"), NRG also had interests on October 1, 1997 in 39 small hydroelectric and landfill gas-fired power generation facilities located in the United States with total design capacity of 113 MW, of which NRG has net ownership of 55 MW.

In addition to power generation, NRG has interests in four district heating and cooling systems, located in Minneapolis, San Francisco, Pittsburgh and San Diego, that provide steam for heating and chilled water for cooling. NRG also owns or operates two steam transmission facilities and two resource recovery/RDF facilities, all located in Minnesota. NRG also owns or leases interests in lignite mines in Germany estimated to contain reserves of approximately 789 million metric tons and in Australia estimated to contain resources equal to 2 billion tons.

Set forth in the two tables and the text below are descriptions of NRG's facilities in operation or under construction as of October 1, 1997.

INDEPENDENT POWER PRODUCTION AND COGENERATION FACILITIES(1)

NAME AND LOCATION OF FACILITY	DESIGN CAPACITY(MW)(2)	POWER PURCHASER	LATER OF DATE OF ACQUISITION OR DATE OF COMMERCIAL OPERATION	NRG'S PERCENTAGE OWNERSHIP INTEREST	TOTAL FACILITY COST(3) (IN $ MILLIONS)
Loy Yang Power(4), Australia	2000	Victorian Pool	1997	25.37	3,700(5)
Gladstone Power Station, Australia	1680	QTSC; BSL	1994	37.50	532.0(6)
Collinsville, Australia	189	QTSC	1998	50.00	154.0
Energy Development Limited, Australia	196	Various	1997	19.97	Listed company
Kladno Czech Republic, existing project	28	STE/Industrials	1994	34.00	NA(7)
expansion project	354	STE	1999	57.85	401.0
Schkopau Power Station, Germany	960	VEAG	1996	20.55	1,094.0(6)
MIBRAG mbH(4), (Mumsdorf) Germany	100	WESAG	1994	33.33	468.0(4)(8)
MIBRAG mbH(4), (Deuben) Germany	60	WESAG	1994	33.33	(8)
MIBRAG mbH(4), (Wahlitz) Germany	40	WESAG	1994	33.33	(8)
COBEE, Bolivia	218 (9)	Electropaz/ELF	1996	57.96	174.6
Latin Power (Mamonal), Colombia	100	Proelectrica	1994	6.45	71.0
Latin Power (Termovalle), Colombia	199	EPSA	1998	4.88	145.6
Latin Power (ELCOSA), Honduras	80	Empresa Nacional de Energia Electrica	1994	7.65	93.0
Latin Power (Dr. Bird), Jamaica	74	Jamaica Public Service Company, Ltd.	1995	8.78	98.0
Latin Power (Aguaytia), Peru	155	Central Peruvian Electricity Grid	1998	3.63	256.0
NRGG (Parlin), New Jersey	122	Jersey Central Power & Light Company	1996	41.86	Listed company
NRGG (Newark), New Jersey	52	Jersey Central Power & Light Company	1996	41.86	Listed company
NRGG (Grays Ferry), Pennsylvania	150	PECO Energy Company	1996	13.95	Listed company
NRGG (Philadelphia Cogen), Pennsylvania	22	Philadelphia Municipal Authority	1996	34.74	Listed company
San Joaquin Valley (Madera), California	23	NA(10)(11)	1992	45.00	45.8
San Joaquin Valley (Chowchilla II), California	10	NA(10)(11)	1992	45.00	
San Joaquin Valley (El Nido), California	10	NA(10)(11)	1992	45.00	
Jackson Valley Energy Partners, California(12)	16	PG&E	1991	50.00	28.0
Sunnyside Cogeneration Associates, Utah	58	PacifiCorp	1994	50.00	139.4
Artesia, California	34	Southern California Edison	1996	2.96	40.0
Cadillac Renewable Energy, Michigan	34	Consumers Energy	1997	50.00	5.0(13)
		Millenium			

Morris Cogen, Illinois	117	Petrochemicals, Inc.	1998	50.00	91.0

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(1) Does not include the small hydroelectric and landfill gas-fired power generation facilities owned by NEO with an aggregate capacity of 72 MW, of which NEO has net ownership of 35 MW. In addition, NEO has landfill gas projects under construction with an aggregate capacity of 23.5 MW, of which NEO has net ownership of 11.8 MW.

(2) Design capacity is without deduction for internally consumed power.

(3) Except as otherwise indicated, total facility cost includes the total acquisition cost (purchase price plus assumed debt) where NRG has acquired an interest in an existing facility or the total construction cost where NRG has acquired an interest in a facility under construction.

(4) Each of Loy Yang and MIBRAG also owns coal mines which sell coal both to its respective power plant and to third parties.

(5) Figures based on an acquisition cost of AUS$4.7 billion, converted at an exchange rate of 0.7767.

(6) Based on exchange rates in effect at the time of acquisition.

(7) The existing Kladno facility was constructed over a number of years in former Czechoslovakia and no meaningful cost data are available.

(8) This figure represents the total cost for the 3 generation facilities and the lignite mine reserves owned by MIBRAG. The purchase price includes a commitment to contribute DM 1 billion of additional capital made by MIBRAG at the time of the acquisition. In addition to the price stated above, MIBRAG is required to pay premiums to the German government based on the quantity of lignite and briquettes sold.

(9) Includes the Zongo 65 MW expansion which will be operational in 1998.

(10) Operations suspended following buy-out of power purchase contracts and pending negotiation of new power purchase agreements or sale of such facilities.

(11) PG&E has agreed to a buy-out of related power purchase agreements, but retains a right of first refusal with respect to output of facilities.

(12) Operations were suspended during 1995 and 1996 pursuant to a restructuring of the power purchase agreement. Operations restarted on May 1, 1997.

(13) In addition, NRG pays GE Credit Corporation rent under an operating lease for the facility.

THERMAL ENERGY PRODUCTION AND TRANSMISSION FACILITIES AND RESOURCE RECOVERY FACILITIES

NAME AND LOCATION OF FACILITY	DESIGN CAPACITY(1)	THERMAL ENERGY PURCHASER/MSW SUPPLIER	DATE OF ACQUISITION	NRG'S PERCENTAGE OWNERSHIP INTEREST	TOTAL FACILITY COST(2) (IN $ MILLIONS)
Thermal Energy Production and Transmission Facilities					
Minneapolis Energy Center (MEC), Minnesota	Steam: 1,323 mmBtu/hr. (388 MWt) Chilled water: 35,550 tons/hr.	Approximately 90 steam customers and 30 chilled water customers	1993	100.00	110.0
North American Thermal Systems (NATS), Pennsylvania; California	Pittsburgh: steam--240 mmBtu/hr. (70 MWt) chilled water--10,180 tons/hr. San Francisco: steam--490 mmBtu/hr. (144 MWt)	Approximately 24 customers in Pittsburgh and 210 customers in San Francisco	1995	49.40(3)	6.8
San Diego Power & Cooling	Chilled Water: 5,250 tons/hr.	Approximately 14 customers	1997	100.00	6.7
Rock-Tenn Minnesota	Steam: 430 mmBtu/hr. (126 MWt)	Rock-Tenn Company	1992	100.00	14.2

Washco, Minnesota.....	160 mmBtu/hr. (47 MWt)	Andersen Corporation Minnesota Correctional Facility	1992	100.00	5.2
Grand Forks Air Force Base, North Dakota.....	105 mmBtu/hr. (31 MWt)	Grand Forks Air Force Base	1992	100.00	2.2
Energy Center Kladno, Czech Republic(4)	512 mmBtu/hr. (150 MWt)	City of Kladno	1994	34.00	NA(4)
Resource Recovery Facilities					
Newport, Minnesota.....	MSW: 1,500 tons/day	Ramsey and Washington Counties	1993	100.00	17.1
Elk River, Minnesota(5).....	MSW: 1,500 tons/day	Anoka, Hennepin, and Sherburne Counties; Tri-County Solid Waste Management Commission	NA(6)	0.00	NA(5)

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(1) Thermal production and transmission capacity is based on 1,000 Btus per pound of steam production or transmission capacity. The unit mmBtu is equal to one million Btus.
(2) Total facility cost includes the total acquisition cost (purchase price plus assumed debt).
(3) Includes 0.5% general partnership interests in each of PTLP and SFTLP.
(4) Kladno also is included in the Independent Power Production and Cogeneration Facilities table on the preceding page.
(5) NRG operates the Elk River resource recovery facility on behalf of NSP.
(6) Not owned during this period.

INDEPENDENT POWER PRODUCTION AND COGENERATION

INTERNATIONAL PROJECTS

LOY YANG POWER

In May 1997, NRG consummated the largest acquisition in its history, acquiring a 25.37% interest in the assets of a 2,000 MW brown coal fired thermal power station and adjacent coal mine located in Victoria, Australia and known as Loy Yang A. The State of Victoria sold the Loy Yang A assets as part of its privatization program to a partnership called Horizon Energy Partnership ("HEP"), formed by affiliates of NRG and of CMS Generation (a wholly-owned subsidiary of CMS Enterprises), together with Horizon Energy Investment Limited (an investment vehicle of Macquarie Bank). NRG has a 25.37% interest in HEP through its wholly-owned project subsidiary, NRGenerating Holdings (No.4) B.V.

HEP purchased the Loy Yang A assets for a total price of approximately AUS$4.7 billion (US$3.7 billion, as of May 12, 1997). While most of that amount was raised through project-financed loans and leveraged leases that are non-recourse to the sponsors, NRG's equity investment was approximately US$257 million. NRG provided that amount and related financing costs from the Bridge Financing, the equity investment by NSP and cash on hand. After the acquisition, HEP changed its name to "Loy Yang Power" ("Loy Yang").

Loy Yang owns and operates a 2,000 MW brown coal fired thermal power station (the "Power Station") and the adjacent Loy Yang coal mine (the "Mine") located in the Latrobe Valley, Victoria, Australia. The Power Station has four generating units, each with a 500 MW boiler and turbo generator, which commenced commercial operation between July 1984 and December 1988. In addition, Loy Yang manages the common infrastructure facilities which are located on the Loy Yang site, which service not only the Power Station, but also the adjacent Loy Yang B 1000 MW power station ("Loy Yang B"), a pulverized dried brown coal ("PDBC") plant, and several other nearby power stations.

The Loy Yang Power Station has generally achieved high capacity factor performance since commencing commercial operation, as compared to other brown coal generators in the same region of Australia. In the fiscal years ending June 30, 1995 and 1996, the capacity factor has been 94.3% and 91.2%, respectively, which were the best years of capacity factor performance in the

project's history. The Power Station has also improved unit reliability, measured both in terms of trip rate and in terms of equivalent forced outage rate, over the last 5 years. The trip rates (per 1000 service hours) were just 1.2 and 0.7 for the 1995 and 1996 fiscal years, respectively. The equivalent forced outage rates for the same periods were 2.07% and 2.72%. The Trip Rate is a ratio that measures the total number of unit trips or disconnections from the grid, regardless of the amount of time of the outage. The Forced Outage Rate is the total number of hours the unit is disconnected from the grid due to forced outages during specified period of time, which in this case is a year.

Loy Yang is required by law to sell its entire output of electricity (subject to certain narrow exemptions, including output used in the Power Station and the Mine) through the competitive wholesale market for electricity operated and administered by the Victorian Power Exchange (the "Pool"). There are two components to the wholesale electricity market in Victoria. The first is the Pool. The second is the price hedging contracts, known as Contracts for Differences (or "CFDs"), that are entered into between electricity sellers and buyers in lieu of traditional power purchase agreements, which are not available in Victoria because of the Pool system.

Under the Victorian regulatory system, all electricity generated in Victoria must be sold and purchased through the Pool. All licensed generators and suppliers, including Loy Yang, are signatories to a pooling and settlement agreement, which governs the constitution and operation of the Pool and the calculation of payments due to and from generators and suppliers. The Pool also provides centralized settlement of accounts and clearing. Prices for electricity are set by the Pool daily for each half-hour of the following day based on the bids of the generators and a complex set of calculations matching supply and demand and taking account of system stability, security and other costs. Under a new national electricity market, the grid in Victoria has been interconnected with that of New South Wales and limited

trading is already taking place between those states. Over the long term, there are plans for the interconnection of the eastern seaboard states to establish what will be known as a national power pool. There can be no assurance that NRG's assumptions concerning future market pricing will in fact be realized under this new system.

In a Pool system, it is not possible for a generator such as Loy Yang to enter into traditional power purchase agreements. In order to provide a hedge against Pool price volatility and also to support their financings, most of the Victorian generators have entered into CFDs with the Victorian distribution companies, Victorian government entities and industrial users ("customers"). These CFDs are financial hedging instruments which have the effect of fixing the price for a specified quantity of electricity for a particular seller and purchaser over a defined period. They establish a "strike price" for a certain volume of electricity purchased by the user during a specified period; differences between that "strike price" and the actual price set by the Pool give rise to "difference payments" between the parties at the end of the period. Even if Loy Yang is producing less than its contracted quantity it will still be required to make and will be entitled to receive difference payments for the amounts set forth in its CFDs.

Loy Yang's current CFDs with the Victorian distribution companies and other Victorian government entities in respect of regulated customer load (which are called its "vesting contracts") cover approximately 73% of Loy Yang's forecast revenue from generation in the year ending June 30, 1997, thus providing considerable stability in its income over that period. Loy Yang also enters into CFDs with its unregulated or "contestable" customers; these CFDs are known as "hedging contracts" and, together with the vesting contracts with the regulated customers, they cover approximately 93% of Loy Yang's forecast load for the year ending June 30, 1997. Each of the vesting contracts expires at the end of the franchise period (December 31, 2000), by

which time all retail customers will have become "contestable customers" by operation of law. Loy Yang's hedging contracts are generally for a term of one to two years, and the volume of load covered will increase as retail customers progressively become contestable. Loy Yang's goal is to cover 85% of its forecast load with these hedging contracts.

Loy Yang and the State Electricity Commission of Victoria (the "SECV") have been issued with a joint mining license for the Mine. Under the terms of the privatization, Loy Yang is required to mine coal to supply not only its own Power Station but also the neighboring Loy Yang B, a nearby PDBC plant, and an additional future power station that could be developed on a nearby site. This requirement extends to 2027, but may be extended for an additional 30 years at the SECV's option. Loy Yang receives a fixed capacity charge and a variable energy charge for these services, coupled with a system of initiatives and penalties. Loy Yang has over 70 years of economically viable coal supply at current usage rates within its mine license area, even assuming that it is required to continue supplying coal to the other parties beyond 2026.

As noted above, Loy Yang also manages certain common infrastructure facilities located on Loy Yang's site that service not only Loy Yang, but also Loy Yang B, the PDBC plant, and several other nearby power plants. These services provided include the supply of high quality water, low quality water, ash and waste disposal, drainage and steam.

GLADSTONE POWER STATION

Gladstone is a 1,680 MW coal-fired power generation facility located in Gladstone, Australia. NRG acquired a 37.5% ownership interest in Gladstone when the facility was privatized in March 1994. The other participants in this acquisition are subsidiaries or affiliates of Comalco Limited, Marubeni Corporation, Sumitomo Corporation and Sumitomo Light Metal Industries, Mitsubishi Corporation and Mitsubishi Materials Corporation, and Yoshida Kogyo (the "Participants"). NRG Gladstone Operating Services Pty. Ltd., another wholly-owned subsidiary of NRG ("NRG Gladstone"), operates the Gladstone Power Station under an operations and maintenance agreement expiring in 2011.

Gladstone sells electricity to the Queensland Transmission and Supply Corporation ("QTSC") and also to the Boyne Smelters Limited located at Boyne Island, Queensland ("Smelter"). Pursuant to an Interconnection and Power Pooling Agreement (the "IPPA"), the Participants have the right to interconnect Gladstone to the QTSC system and QTSC is obligated to accept all electricity generated by

the facility (subject to merit order dispatch), for an initial term of 35 years. QTSC also has agreed under the IPPA to permit the Smelter to interconnect to the QTSC system and to provide sufficient generating capacity on its system in order to provide an uninterrupted supply of power to the Smelter in most circumstances. The Participants are obligated to maintain a 35% reserve margin for the Smelter design load, but the QTSC is obligated to provide capacity support to the Participants to make up any shortfall between the available capacity from the GPS and the Smelter demand at any given time.

The QTSC also entered into a 35-year Capacity Purchase Agreement (a "CPA") with each of the Participants for its percentage of the capacity of Gladstone, excluding that sold directly to the Smelter. Under the CPAs, the Participants are paid both a capacity and an energy charge by the QTSC. The capacity charge is designed to cover the projected fixed costs allocable to the QTSC, including debt service and an equity return, and is adjusted to reflect variations in interest rates. A capacity bonus is also available if the Equivalent Availability Factor exceeds 88% on a rolling average basis, and damages are payable by the Participants if it is less than 82% on that same basis. As of June 30, 1997, the two-year average Equivalent Availability Factor was 86.0%. The QTSC also pays an energy charge, which is intended to

cover fuel costs.

The owners of the Smelter ("BSL") have also entered into a Block A PPA with each Participant, providing for the sale and purchase of such Participant's percentage share of capacity allocated to the existing Smelter. BSL has also entered into a Block B PPA with each Participant, providing for the sale and purchase of such Participant's percentage share of capacity allocated to the third production line of the Smelter which is currently being commissioned. The term of each of these PPAs is 35 years. BSL is obligated to pay to each Participant a demand charge that is intended to cover the fixed costs of supplying capacity to the existing Smelter and the Smelter expansion, including debt service and return on equity. BSL also is obligated to pay an energy charge based on the fuel cost associated with the production of energy from the facility. NRG anticipates that the Smelter expansion will result in an increase in Gladstone capacity utilization from approximately 41% in 1994 to an estimated 70% in 1998.

NRG Gladstone is responsible for operation and maintenance of Gladstone pursuant to a 17-year Operation and Maintenance Agreement that commenced in 1994. NRG Gladstone is entitled to a base fee of AUS$1.25 million per year indexed in accordance with Australian CPI (approximately $1.1 million, based on exchange rates and ACPI in effect at June 30, 1997), and an annual bonus based on the capacity bonuses to which the Participants are entitled under the CPAs. NRG Gladstone is obligated to pay liquidated damages for shortfalls in availability in an amount calculated by reference to the liquidated damages payable by the Participants under the CPAs and the PPAs. NRG Gladstone's obligations under the Operation and Maintenance Agreement are unconditionally guaranteed by NRG, subject to an aggregate liability cap of AUS$25 million indexed in accordance with ACPI (approximately $20.6 million, based on exchange rates and ACPI in effect at June 30, 1997).

In the event the Gladstone facility fails to deliver sufficient power for the Smelter and no back up power is available from the QTSC, molten aluminum in the Smelter can solidify, resulting in a shutdown of the Smelter for a substantial period of time. If the failure to deliver power to the Smelter is caused by the willful default of QTSC or the Participants (but not NRG Gladstone), the Participants may become liable to pay liquidated damages, including compensation to BSL for lost profits, which are not capped. QTSC has agreed to indemnify NRG's project subsidiaries and the other Participants for any liability to the owners of the Smelter arising as the result of a willful default by QTSC with regard to its obligations to deliver power to the Smelter, subject to certain mitigation obligations of NRG's project subsidiaries and the other Participants. If such failure is due to the willful default of NRG Gladstone, NRG may become liable, under its guarantee of NRG Gladstone's obligations, to pay liquidated damages up to AUS$25 million indexed in accordance with ACPI (approximately $20.6 million, based on exchange rates and ACPI in effect at June 30, 1997). In addition, in the event NRG Gladstone is terminated for cause under the Operation and Maintenance Agreement, the other Participants can require a sale of NRG's equity interest.

Coal costs for operation of Gladstone generally are passed through to QTSC and BSL via the energy charges under the IPPA and the BSL Power Purchase Agreements. Until 2005, coal will be supplied to

Gladstone by QTSC through on-sale agreements between QTSC and the Participants. An umbrella coal haulage agreement between the Participants and Queensland Railways provides for the transportation of coal by rail from the existing sources and from future coal sources for 30 years, with rail freight costs generally being passed through to QTSC and BSL via the energy charge payable to the Participants. The Participants have arranged for ash disposal from the facility pursuant to an ash management agreement with the Gladstone Port Authority, the City of Gladstone and Queensland Railways.

The acquisition of the GPS by the Participants was financed pursuant to an

AUS$625 million (US$443 million at exchange rates in effect at the time) secured term loan and letter of credit facility provided by a consortium of international banks arranged by Barclay's Bank plc. The debt is non-recourse to NRG and the other owners of the Participants.

Queensland is in the process of converting its electricity generation system in order to participate in the national power pool under development in Australia. In connection with that conversion, the Participants have engaged in discussions with BSL and various Queensland governmental entities regarding a restructuring of the project to make it more compatible with the new electricity market. Those negotiations are in an intermediary stage, and NRG expects the restructuring to take several months. Meanwhile, NRG, the Participants and BSL have agreed on certain principles regarding restructuring, including the following principles: (a) none of the parties will be any worse off as a result of the restructuring, taking into account all risk and financial perspectives; (b) it is preferable to have restructuring outcomes that are consistent with the operation of the new electricity market, rather than outcomes that are exceptions; (c) where opportunities arise in the restructuring, the benefits from superior management of risk will be recognized; and (d) benefits arising from the restructuring will be shared equitably after taking into account any reallocation of risk.

NRG's equity in earnings from its 37.5% interest in the GPS was $7.7 million for the nine months of ownership in 1994. Equity in earnings for the twelve months ended December 30, 1995, was $11.2 million, and for the same period in 1996 was $10.8 million. For the first half of 1997, equity in earnings was $6.4 million and for the same period in 1996 was $5.5 million.

COLLINSVILLE POWER STATION

The Collinsville Power Station ("Collinsville") is a 189 MW coal-fired power generation facility located in Collinsville, Australia. In March 1996, NRG acquired a 50% ownership interest in Collinsville when the facility was privatized by the Queensland State government. NRG's partner in this acquisition is Transfield Holdings Pty Ltd, an Australian infrastructure contractor, with which NRG formed an unincorporated joint venture to refurbish this plant. The operation and maintenance of the facility will be undertaken by Collinsville Operations Pty Ltd, a 50% owned subsidiary of NRG which has entered into a technical services agreement with NRG for some staffing and assistance with certain operational and maintenance functions.

Both NRG and Transfield have entered into an 18-year PPA with the QTSC, each agreeing to make available and sell to the QTSC its respective proportion of the capacity of Collinsville. Under the PPA, NRG is paid both a capacity and an energy charge by the QTSC. The capacity charge is designed to cover the projected fixed costs allocable to the QTSC, including debt service, permitted capital costs incurred by NRG in carrying out additional works on the facility and an equity return. The capacity charge is adjusted to reflect variations in interest rates. A capacity bonus is also available. The QTSC also pays NRG an energy charge, which is intended to cover fuel costs. Further, in accordance with its take-or-pay obligations, the QTSC must pay NRG its energy charges for an annual minimum quantity of energy in each year, less energy taken by the QTSC in that relevant year.

As of September 1997, the refurbishment of the Collinsville Project is on schedule and within the budget. For each day the capacity test of the facility is delayed past March 1, 1998, NRG and Transfield must pay liquidated damages to the QTSC. Liquidated damages will also be payable if the capacity of the power plant is determined to be less than 177.25 MW. Total liquidated damages which NRG and Transfield can be required to pay to the QTSC under the PPA are limited to AUS$5 million (indexed in April 1995 dollars).

The refurbishment of the Collinsville Power Station has been financed with nonrecourse commercial project financed bank debt. NRG has guaranteed to the QTSC that its Collinsville project subsidiary will satisfy its equity contribution obligations to the project lenders.This $13.4 million equity contribution is expected to be made in the second quarter of 1998.

ENERGY DEVELOPMENTS LIMITED

On February 6, 1997, NRG, through its wholly-owned subsidiary NRG Victoria III Pty Ltd., signed a subscription agreement with EDL to acquire up to 20% of EDL's common stock at AUS$2.20 (US$1.71 as of May 22, 1997) per share, and was granted an option to acquire 16.8 million convertible non-voting preference shares at AUS$2.20 per share. The preference shares do not become convertible into EDL's common stock unless a takeover bid is made for EDL by a person who is not an affiliate of the owner of the preference shares and such person is, or becomes, entitled to purchase more than 35% of EDL's outstanding common stock. In such event, if EDL fails to comply with an obligation to appoint directors nominated by the owner of the preference shares, the preference shares convert at the option of the owner to common shares of EDL on a share-for-share basis. On February 11, 1997, NRG made an initial purchase of 7.2% (4.5 million shares) of EDL's common stock for AUS$9.9 million (US$7.9 million on that date). On September 24, 1997, NRG purchased an additional 10,109,670 shares of common stock of EDL for an aggregate purchase price of AUS$22.2 million (US$16.1 million on that date), bringing NRG's ownership level to 20% of the outstanding shares of EDL.

EDL, an Australian company, is engaged in independent power generation from landfill gas, coal seam methane, and natural gas (including projects that utilize the latest combined cycle technology). EDL currently owns approximately 149 MW of operating projects and operates over 200 MW of generation capacity across five states and territories of Australia. EDL has commenced the development of new projects in the United Kingdom, Asia and New Zealand. EDL is a publicly traded company listed on the Australian Stock Exchange. Its share price as of September 24, 1997 was AUS$3.15 (US$2.28 as of September 24, 1997).

SCHKOPAU POWER STATION

In 1993, NRG and PowerGen plc of the United Kingdom each acquired a 50% interest in a German limited liability company, Saale Energie GmbH ("Saale"). Saale then acquired a 41.1% interest in a 960 MW coal-fired power plant that was under construction in Schkopau, which is located in the former East Germany. A German energy company, VEBA Kraftwerke Ruhr AG ("VKR"), owns the remaining 58.9% interest in Schkopau and operates the plant. The partnership of Saale and VKR that owns the plant is called Kraftwerk Schkopau GbR ("KS").

The first 425 MW unit of the Schkopau plant began operation in January 1996, the 110 MW turbine went into commercial operation in February 1996, and the second 425 MW unit came on line in July 1996. Acceptance testing of all of the individual pieces of equipment has been completed. The plant has generally experienced good availability since the beginning of commercial operation and is expected to continue meeting its design reliability and efficiency requirements.

VKR operates and maintains the Schkopau facility under an operation and maintenance contract with Kraftwerk Schkopau Betriebsgesellschaft mbH, a German limited liability company ("KSB"), in which Saale and VKR hold interests of 44.4% and 55.6% respectively, and which is responsible for the operation and maintenance of the facility pursuant to certain agreements with each of Saale and VKR. VKR is paid a management fee for such services made up of several variable components that will be adjusted according to changes in, among other things, labor costs, producer prices for light fuel oil and

prices for electricity. Pursuant to the KSB partnership agreement between Saale and VKR and the Saale shareholders agreement between NRG and PowerGen, NRG has the right to participate in the oversight of facility operations and in the approval and oversight of facility budgets and policies.

The plant is fueled by brown coal (lignite) which will be provided under a long-term contract by MIBRAG's Profen lignite mine. For a description of the coal supply agreement between MIBRAG and the Schkopau project, see "MIBRAG", below.

Pursuant to the KS partnership agreement between Saale and VKR, each partner has been allocated a share of capacity and energy generated by the facility. Saale sells its allocated 400 MW portion of the plant's capacity under a 25-year contract with VEAG, a major German utility which controls the high-voltage transmission of electricity in the former East Germany. VEAG pays a price that is made up of three components, the first of which is designed to recover installation and capital costs, the second to recover operating and other variable costs, and the third to cover fuel supply and transportation costs. NRG receives 50% of the net profits from these VEAG payments through its ownership interest in Saale.

The construction of the Schkopau facility was financed through a combination of capital contributions from Saale and VKR, and borrowings by KS from VKR and from third party lenders, which are non-recourse to NRG. Saale financed a portion of its capital contributions through a line of credit from VKR. Saale's interests in KS and the facility are pledged as security for, among other obligations, the repayment of these borrowings by Saale from VKR. As of June 30, 1997, KS had borrowed an aggregate of DM 1.5 billion (approximately $836.4 million, based on exchange rates in effect as of June 30, 1997) and Saale had borrowed an aggregate of DM 34.2 million (approximately $18.6 million, based on exchange rates in effect as of June 30, 1997).

NRG, PowerGen and VKR have also entered into a cooperation agreement concerning the participation of VKR in the acquisition or construction of certain large power station projects involving NRG and/or PowerGen in the Federal Republic of Germany.

Earnings from the Schkopau facility commenced in the first quarter of 1996 when the first unit was brought on-line. Equity in Schkopau earnings was $6.4 million for the year ended December 31, 1996 and $3.1 million for the six months ended June 30, 1997.

MIBRAG

In 1994, NRG, Morrison Knudsen Corporation and PowerGen plc each acquired a 33% interest in a Dutch holding company which then acquired the equity of Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG") which owns the coal mining, power generation and associated operations of MIBRAG, all of which are located south of Leipzig, Germany. The German government retained a 1% interest in MIBRAG until December 1996, when each of the three original investor parties were permitted to purchase one third of that interest. The investor partners began operating MIBRAG effective January 1, 1994, and the legal closing occurred August 11, 1994.

MIBRAG is a corporation formed by the German government following the reunification of East and West Germany, to hold two open-cast brown coal (lignite) mining operations, a lease on an additional mine, three lignite-fired industrial cogeneration facilities and briquette manufacturing and coal dust plants, all located in the former East Germany. In connection with the acquisition, NRG and its partners agreed to invest (from cash flow

from MIBRAG operations) in excess of DM 1 billion (US$573 million based on the exchange rate as of June 30, 1997) by December 31, 2004 to modernize the existing mines and power generation facilities and to develop new open-pit mines. The German government is obligated to provide certain guarantees of bank loans to MIBRAG relating to capital improvements to the Schleenhain mine. MIBRAG also agreed to operate the three power generation facilities until 2005, to operate the briquette plants in accordance with market demand until 2005, and to operate the lignite mines until continued operation of the mines is no longer economically justifiable. In addition, MIBRAG has made certain employee retention commitments until 2000. Under the provisions of the sale and purchase agreement, NRG and its partners agreed to make a deferred payment of DM 40 million to the German government in the year 2009. This obligation will be reduced by certain costs incurred by MIBRAG. The remaining obligation at June 30, 1997 was DM 25.0 million (or US$14.3 million based on the exchange rate on June 30, 1997). NRG expects the entire obligation will be offset by ongoing costs prior to the year 2009.

MIBRAG's cogeneration operations consist of the 100 MW Mumsdorf facility, the 60 MW Deuben facility and the 40 MW Wahlitz facility. These facilities provide power and thermal energy for MIBRAG's coal mining operations and its briquette manufacturing plants. All power not consumed by MIBRAG's internal operations is sold under an eight-year power purchase agreement with Westsachsische Energie

Aktiengesellschaft ("WESAG"), a recently privatized German electric utility. NRG and PowerGen jointly, through Saale, provide consulting services for a fee for the operation of the MIBRAG steam and power generation facilities, the associated electrical and thermal transmission and distribution system and the briquette manufacturing plants, under a power consultancy agreement with MIBRAG for the life of the facilities. After some retrofitting was completed by MIBRAG, all three of these cogeneration facilities now satisfy the current European Union environmental regulations. MIBRAG leases these cogeneration facilities under a 13-year lease pursuant to which MIBRAG has operating control of and a 1% interest in the facilities.

MIBRAG's lignite mine operations include Profen, Zwenkau and Schleenhain (which is under construction but has not yet commenced operations), with total estimated reserves of 776 million metric tons. Morrison Knudsen, an international mining company, provides consulting services to mines under a consultancy agreement with MIBRAG for the life of the mines. In addition to providing approximately 3 million tons of lignite per year for MIBRAG's three cogeneration facilities and one briquette facility, output from these mines supply lignite to the Schkopau power station and other facilities. The total output of the new Schleenhain mine will be dedicated to the new 1600 MW Lippendorf power station. MIBRAG is currently supplying coal for the existing Lippendorf and Thierbach power generation facilities, but they are expected to close in 1999 when the new Lippendorf facility is scheduled to commence operations.

In addition to its power generation and coal mining operations, MIBRAG owns and operates two briquette manufacturing plants and a coal dust plant. Operations at the Deuben briquette plant were phased out as anticipated in 1996 due to reduced market demand for briquettes. MIBRAG also partially owns and is the principal customer of a transportation company, an insurance brokerage firm, a briquette marketer, a waste disposal and management company, a ground water consulting company and an environmental consulting company.

MIBRAG is restricted from selling or transferring certain assets without the consent of the German government, generally for a period ending not earlier than January 2004. Even if consent is obtained, MIBRAG is obligated to pay a portion of the proceeds of any sale or transfer of such assets consummated before January 2004 to the German government.

To the extent liabilities arise with respect to environmental conditions

existing at the time of the acquisition, MIBRAG is indemnified by the German government, subject to certain limitations. The German government has also agreed to indemnify MIBRAG in respect of certain liabilities arising from claims for the restitution of property allocated to MIBRAG.

MIBRAG has entered into several long-term loan agreements with the Kreditanstalt fur Wiederaufbau ("KfW"), which is the German government economic development bank. Approximately DM 126.7 million ($72.6 million as of June 30, 1997) of these loans relate to the construction of the Wahlitz power station and were assumed as part of the MIBRAG acquisition on January 1, 1994. In January 1996, MIBRAG borrowed an additional DM 94.5 million ($54.1 million as of June 30, 1997) from KfW and DM 198.0 million ($113.4 million as of June 30, 1997) from a group of private investors. The proceeds from these loans are being used in respect of the refurbishment of the Schleenhain mine. These loans are payable out of project revenues over a period of 13 years and are non-recourse to the three sponsors. Additional acquisition payments are due to the German government in the form of premiums based on the quantity of lignite and briquettes sold. MIBRAG has also borrowed an additional DM 90 million ($51.6 million as of June 30, 1997) from the KfW to partially finance the modernization and refurbishment of the Deuben and Mumsdorf plants, particulary the cost of bringing them into compliance with environmental requirements. This loan is also non-recourse to the sponsors.

NRG's equity in earnings from its interest in MIBRAG was $19.4 million in the year ended December 31, 1994 (reflecting a full twelve months of operations). NRG's equity in earnings in MIBRAG for the twelve months ended December 31, 1995, was $22.2 million, and for the same period in 1996 was $13.0 million. Similarly, equity in earnings for the first half of 1997 was $4.5 million, while the first half of 1996 was $4.9 million. Earnings from MIBRAG decreased in 1996 and are expected to continue to decrease in 1997 and 1998 due to mine refurbishments and reduced coal sales. However, in 1999, coal sales are expected to increase substantially with the scheduled startup of the first of two 800 MW Lippendorf generating units.

MIBRAG's results of operations, which are reported under German accounting rules, are adjusted for purposes of NRG's financial statements to reflect GAAP. Such adjustments include, among others, adjustments for differences in reporting of depreciation expense, mining reserves, vacation reserves and maintenance reserves.

The following chart represents the ownership structure of MIBRAG and Schkopau:

GRAPHIC OMITTED

COBEE

In December 1996, NRG acquired an interest in Compa|fnia Boliviana de Energia Electrica S.A. -- Bolivian Power Company Limited ("COBEE"), the second largest generator of electricity in Bolivia. The acquisition was consummated through a Netherlands corporation, Tosli Investments B.V. ("Tosli"), which is jointly owned by subsidiaries of NRG (60%) and Vattenfall AB of Sweden (40%). On December 19, 1996, Tosli completed a successful tender offer for the shares of COBEE, which were listed on the New York Stock Exchange, acquiring 96.6% of COBEE's outstanding common shares for a total of $175 million. COBEE shares were delisted in January 1997.

Tosli financed its acquisition of COBEE in part using the proceeds of a

$49.6 million bridge loan arranged by Morgan Grenfell & Co. Limited, as administrative agent. The unpaid principal amount of that loan of $30 million was repaid in full on June 19, 1997 using the proceeds of a loan from NRG to Tosli. On August 13, 1997, COBEE entered into a Credit Agreement with Corporacion Andina de Fomento (the "CAF Financing") for $75 million to fund the completion of the Zongo Project, as described below. Upon funding of the CAF Financing, COBEE will declare and pay a dividend to Tosli and COBEE's minority shareholders. The dividend received by Tosli will be used to pay the amounts due on the NRG loan.

Upon Tosli's acquisition of COBEE, the COBEE board of directors was reconstituted to include nine members, including four designees of NRG, three designees of Vattenfall and two outside directors. In addition, in December 1996, the Chief Executive Officer of NRG was elected as chairman of the board of directors and chief executive officer of COBEE.

COBEE generates and transmits electricity in La Paz and Oruro, Bolivia, and owns 14 generating facilities representing an installed capacity of approximately 153 MW. These facilities consist of 136 MW of hydroelectric capacity and 17 MW of gas peaking capacity. During 1996, COBEE had electricity sales of $20 million. In 1996, two distribution companies, Electropaz and ELF, accounted for approximately 69% and 16%, respectively, of COBEE's revenues. The remaining COBEE revenues are derived from sales on the spot market.

COBEE has entered into an Electricity Supply Contract with Electropaz which provides that COBEE shall supply Electropaz with all of the electricity that COBEE can supply, up to the maximum amount of electricity required by Electropaz to supply the requirements of its distribution concession. This Electricity Supply Contract expires in December 2008. COBEE has entered into a substantially similar contract with ELF. Electropaz and ELF are both wholly-owned subsidiaries of Ibedrola S.A., a Spanish utility company. All payments by Electropaz and ELF are in local currency, tied to the value of the U.S. dollar.

COBEE operates its electric generation business under a 40-year Concession granted by the Government of Bolivia in 1990, as most recently amended in March 1995. Under this Concession, COBEE is entitled to earn a return of 9% after all operating expenses, depreciation, taxes and interest expense, calculated on its U.S. dollar rate base, consisting of net fixed assets at historical cost in U.S. dollars and working capital and materials up to certain limits. The Bolivian Electricity Code also provides for the adjustment of rates to compensate COBEE for any shortfall or to recapture any excess in COBEE's actual rate of return during the previous year. COBEE periodically applies to the Superintendent of Electricity for rate increases sufficient to provide its 9% rate of return based on COBEE's current operating results and its projection of future revenues and expenses.

Its Concession also obligates COBEE to expand its hydroelectric generation capacity. As a result, COBEE has an additional 65 MW of new hydroelectric facilities under construction in the Zongo Valley. This expansion, which COBEE refers to as the "Zongo Project," consists of adding new generation facilities and modernizing existing facilities in the Zongo Valley and constructing transmission lines to transmit the increased generation capacity. The Zongo Project is scheduled to be completed in 1998 and is expected to add a total of 65 MW to COBEE's generating capacity.

Under the terms of the Concession, COBEE also has the right to expand its facilities in the Miguillas Basin (the "Miguillas Project") which, if completed, would add over 200 MW of generation capacity. In accordance with its obligations under the Concession, in late 1995 COBEE presented to the Government

a technical-economic feasibility study. COBEE fully expects to proceed with the construction of Miguillas in accordance with a proposal and schedule submitted to the Bolivian government in December 1996. COBEE's proposal still awaits regulatory approval from the Superintendent of Electricity in Bolivia.

There can be no assurance that any or all of the projects under development by COBEE will be completed.

Equity in earnings from COBEE were $0.1 million for the twelve days ended December 31, 1996 and $0.8 million for the six months ended June 30, 1997. For the period ended June 30, 1997, NRG received $6.7 million from its sale of a portion of its investment in COBEE. NRG intends to sell down its ownership in COBEE to less than 50%.

KLADNO

The Energy Center Kladno project, located in Kladno, the Czech Republic, consists of two distinct phases. In 1994, NRG acquired an interest in the existing coal-fired electricity and thermal energy generation facility that can supply 28 MW of electrical energy and 150 MWt of steam and heated water. This plant has historically supplied electrical energy to a nearby industrial complex which includes the Poldi Steel works (which is currently shut down and undergoing reorganization), and to Stredoceska Energeticka ("STE"), the local regional electric distribution company. In addition, the existing plant supplies steam and heated water to the industrial complex and to the City of Kladno. NRG's interest in the existing project is 34%.

The second phase is the expansion of the existing project by the addition of 354 MW of new capacity, 282 MW of which will be coal-fired and 72 MW of which will be gas-fired. As a part of this effort, the existing plant will be refurbished.

The existing project is owned by a company called Energy Center Kladno ("ECK"), in which NRG owns 34%, El Paso Energy International Company ("El Paso") owns 19% and local partners own the balance of 47%. The expansion project is held separately through ECK Generating ("ECKG"), a Czech limited liability company of which 89% is owned by a Netherlands company called Matra Powerplant Holding B.V. ("Matra") and 11% is owned by STE. NRG owns 65% of Matra and El Paso owns the remaining 35%. As a result, NRG has a net ownership interest in the expansion plant of 57.85%. Each of NRG and El Paso has granted Nations Energy (a subsidiary of Tucson Electric) an option to acquire 15% of Matra at any time before May 1998. If Nations Energy does not exercise its option with NRG, NRG intends to sell down its interest in Matra until its ownership interest in ECKG is less than 50%.

ECK has leased all of the existing power generation facilities to ECKG pursuant to a 40-year lease. NRG, through a wholly-owned subsidiary, has responsibility for operating both the ECK assets and the new facilities. During construction ECKG will continue to service ECK's existing customers. When the new facilities are built ECKG will sell the additional capacity to STE under a 20 year power sales agreement, at a price tied to STE's cost of purchasing power from CEZ, the state-owned power generation entity.

Construction of the new facilities started in early 1997, and in May 1997 ECKG signed loan documents to provide financing for the project. Construction is currently scheduled to be completed in 1999.

As of June 30, 1997, capitalized development costs for the Kladno project were $8.7 million. In addition, the purchase price paid by NRG for the acquisition of its interest in ECK has been capitalized to investments in projects.

LATIN POWER

Latin Power is an investment fund that was formed in July 1993 to make equity investments in independent power projects in Latin America and the Caribbean. NRG, the International Finance Corporation (a member of the World Bank Group), Corporation Andina de Fomento (a multilateral institution for the Andean region headquartered in Caracas, Venezuela) and CMS Generation Co. (the

independent power subsidiary of CMS Energy) are the four lead investors in Latin Power. Each of the four lead investors has committed $25 million to Latin Power and has designated Scudder, Stevens & Clark, Inc. ("Scudder") as the investment manager of the fund.

As of June 30, 1997, NRG had invested $14.7 million of its $25 million commitment in Latin Power portfolio project investments. NRG has also committed to fund projects in Peru and Colombia, which will be drawn down during 1997 and 1998. For the balance of the $25 million the Latin Power project committee recently approved two investments in power generation facilities in Guatemala and Brazil. NRG's proportional investments in these projects, which have not yet commenced construction, will be approximately $1.9 million and $550,000 respectively.

Latin Power generally makes equity investments in private sector independent power projects located in Latin America and the Caribbean that sell power under long-term contracts to industrial users or to distribution and transmission companies. The fund also may invest in transmission, distribution or related operations. Latin Power currently holds investments in five projects. The Mamonal project is a 100 MW combined-cycle natural gas-fired power generation facility plant operating near Cartagena, Colombia. The facility is owned by K&M Engineering and Consulting, Bank of Boston, Rockefeller Group and Latin Power, which purchased a limited partnership interest in the partnership that owns the facility in 1994 for $7.6 million. Total project debt is $57 million, which is non-recourse to the facility owners. The Overseas Private Investment Corporation ("OPIC") insurance covers certain political and currency risks.

In November 1994, Latin Power purchased a 31% interest in the ELCOSA power generation facility in Puerto Cortes, Honduras. ELCOSA is an oil-fired facility with 80 MW of generating capacity, which the facility sells pursuant to a 15-year power purchase agreement to Empresa Nacional de Energia Electrica. The Honduran government has guaranteed the utility's obligations under the power purchase agreement. The Multilateral Investment Guarantee Association is providing insurance for Latin Power's equity investment against expropriation, political violence and certain currency risks.

In December 1995, Latin Power purchased a 35.1% interest in Jamaica Energy Partners, which owns the 74 MW Dr. Bird floating diesel-fired power generation facility. The facility is installed and operating at Old Harbour on the southern coast of Jamaica near Kingston. Jamaica Public Service Company, Ltd. has signed a 20-year power purchase agreement with Jamaica Energy Partners.

In July 1996, Latin Power assumed a 14.5% ownership interest in the Aguaytia power project in Peru which, when constructed, will be a 155 MW gas-fired power plant. When completed, Aguaytia will sell its output to the Peruvian power pool.

In October 1996, Latin Power purchased a 19.5% limited partnership interest in the 199 MW combined cycle Termovalle project near Cali, Colombia. Commercial operation of Phase I (130 MW simple cycle) is expected in August 1997 and of Phase II (199 MW combined cycle) in May 1998. Empresa de Energia

del Pacifico (EPSA), a state-owned generation, transmission and distribution company, has entered into a PPA for 160 MW of generating capacity from the project. Industrial purchasers in the Cali area have committed to purchase the remaining power capacity.

In late 1996, NRG expressed an interest in making an additional investment in Latin Power II, a new Latin Power fund. Assuming NRG formally commits to the Latin Power II investment, NRG's aggregate commitment in Latin Power from $25 million to $32.5 million.

NRG's equity in earnings from its interest in Latin Power was $1.6 million for the year ended December 31, 1996. For the first half of 1997, these equity in earnings decreased from $1.1 million from the first half of 1996 to $.1 million.

DOMESTIC PROJECTS

NRG GENERATING (U.S.) INC. ("NRGG")

On January 18, 1996, the U.S. Bankruptcy Court for the District of New Jersey awarded NRG the right to acquire a 41.86% equity interest in O'Brien Environmental Energy, Inc. ("O'Brien"), which

emerged from bankruptcy on April 30, 1996 and was renamed NRGG. NRG holds 41.86% of the common stock of NRGG. The remaining 58.14% of the common stock continues to be held publicly. NRGG has interests in three domestic operating projects with an aggregate capacity of approximately 196 MW. NRGG's principal operating projects include: (a) the 52 MW Newark Boxboard Project (which is owned 100% by a wholly-owned project subsidiary of NRGG), a gas-fired cogeneration facility that sells electricity to JCP&L and steam to Newark Group Industries, Inc.; (b) the 122 MW E.I. du Pont Parlin Project (which is owned 100% by a wholly-owned project subsidiary of NRGG), a gas-fired cogeneration facility that sells electricity to JCP&L and steam to E.I. du Pont de Nemours and Company ("E.I. du Pont"); and (c) an 83% interest in a 22 MW standby/peak sharing facility which provides electricity and standby capabilities for the Philadelphia Municipal Authority. In addition, NRGG has a 33.33% interest in the 150 MW Grays Ferry Project, a gas-fired cogeneration project which is under construction in Philadelphia, Pennsylvania.

NRG provides NRGG with management and administrative services in connection with day-to-day operations. NRG employees serve as NRG's designees on the board of directors of NRGG. NRG and NRGG also entered into a "Co-Investment Agreement," pursuant to which NRG grants NRGG a right of first offer to acquire from NRG each energy development project first developed or acquired by NRG for which a co-investor is required because of federal or state regulatory restrictions on NRG's ownership. NRG has agreed that, within the three-year period following the closing date of the acquisition of NRGG, a minimum of one or more such projects, having an aggregate equity value of at least $60 million or a minimum power generation capacity of 150 MW, will be so offered. To facilitate NRGG's ability to acquire projects under the Co-Investment Agreement, NRG is obligated to provide financing to NRGG to the extent that NRGG is unable to obtain funds on comparable terms from other sources.

NRG has also agreed to certain provisions designed to protect the rights of the holders of the equity in NRGG that is not owned by NRG. These provisions include super-majority voting requirements with respect to a merger or sale of all or substantially all of NRGG's assets and certain additional issuances of NRGG stock, the creation of an independent committee of the board of directors of NRGG with authority to, among other things, determine whether NRGG will exercise its right of first offer under the

Co-Investment Agreement and a commitment that, for a seven-year period following NRG's investment in NRGG, NRG will not remove or vote against the re-election to NRGG's board of directors of any of the three directors (appointed by Wexford Management Corp. and the Committee of Equity Security Holders) who constitute the independent directors committee.

NRGG and NRG have entered into various loan agreements. At December 31, 1996, the loan balance due to NRG was $14,388,000 with a maturity date of April 30, 2001.

NRGG is listed under the symbol "NRGG" in the OTC market. NRGG's closing share price as of September 30, 1997 was $20.75.

Newark. The 52 MW Newark project, which commenced operation in November 1990, is 100%-owned by NRG Generating (Newark) Cogeneration Inc. ("NRGGN"), a wholly-owned project subsidiary of NRGG. NRGGN is designed to operate continuously and to provide up to 75,000 lbs./hr. of steam to a recycled paper boxboard manufacturing plant owned by Newark Boxboard Company, a subsidiary of Newark Group Industries, Inc., and 52 MW of electricity to JCP&L, each under agreements extending into the year 2015. The power contract provides fixed on-peak and off-peak energy and capacity payments for the base electrical power and fixed capital, fixed operation and maintenance and variable operation and maintenance payments for the dispatchable power. The facility availability in 1996 was in excess of 95%.

Natural gas for the project is supplied and paid for by JCP&L as a part of its obligations under the terms of the power purchase agreement.

Parlin. The 122 MW Parlin project, which commenced operation in June 1991, is 100% owned by NRG Generating (Parlin) Cogeneration Inc. ("NRGGP"), a wholly-owned project subsidiary of NRGG. NRGGP provides up to 120,000 lbs./hr. of steam to a manufacturing plant in Parlin, New Jersey owned by E.I. du Pont, under an agreement extending until 2021. In addition, the project sells 41 MW of base

electric power and up to 73 MW of dispatchable power to JCP&L, under an agreement with an initial term until 2011. The power contract provides fixed on-peak and off-peak energy and capacity payments for the base electrical power and fixed capital, fixed operation and maintenance and variable operation and maintenance payments for the dispatchable power. Finally, the projects sells up to 9 MW of power to NRG Parlin, Inc. ("NPI"), a wholly-owned subsidiary of NRG Energy, Inc. NPI resells this power at retail to E.I. du Pont under an agreement extending until 2011. The facility availability in 1996 was in excess of 95%.

Natural gas for the project is supplied and paid for by JCP&L as part of its obligations under the terms of the power purchase agreement.

Both the Newark and the Parlin projects are being operated by Power Operations, Inc., a wholly-owned subsidiary of NRG which assumed the operations and maintenance responsibilities on December 31, 1996, under a six-year operating agreement providing for reimbursement of the operator's costs plus a fee.

Financing for Newark and Parlin. On May 17, 1996, NRGG's wholly-owned project subsidiaries, NRGGN and NRGGP entered into a Credit Agreement (the "Credit Agreement") with Credit Suisse. The Credit Agreement established provisions for a $155,000,000 15-year loan and a $5,000,000 five-year debt service reserve line of credit. Pursuant to borrowings in May and July of 1996, NRGGN and NRGGP drew the full $155,000,000 available under the Credit Agreement, which is a joint and several liability of NRGGN and NRGGP and will be amortized over a 15-year period as specified under the terms of the Credit Agreement.

Grays Ferry. NRGG has a 33.3% interest in the 150 MW Grays Ferry Project, which is currently under construction and will, when completed, sell electricity to PECO Energy Company ("PECO") and district heating steam to Trigen-Philadelphia Energy Corporation ("Trigen"). The Grays Ferry Project is being constructed by Westinghouse Electric Corporation ("WEC") pursuant to a fixed price turnkey construction contract. WEC has also made available $15 million in subordinated debt to the project, payable semi-annually after commercial operation and to be repaid in full no later than March 2005. The project is scheduled to go into commercial operation in December 1997. Once in operation, it will be operated by an affiliate of Trigen pursuant to a 25-year operating agreement providing for reimbursement of the operator's costs plus a fee.

PECO will purchase energy and capacity from the project pursuant to two energy purchase agreements and two capacity purchase agreements, each having a term of 20 years. Gas for the Project will be provided by Aquila Energy Marketing Corporation. The gas sales agreement is tailored so that the project's fuel expenses will track its revenues from sales of electricity. To the extent the actual cost of fuel exceeds revenues received, a tracking account has been established which is payable by the project out of distributable cash flow.

Construction and term loan project financing for the project and certain letters of credit to support project agreements were provided by The Chase Manhattan Bank, N.A., as agent. This financing is non-recourse to NRG. The maturity date for the term loan is the earlier of March 6, 2013 or the fifteenth anniversary of the term loan conversion date.

NRG has agreed to fund NRGG's $10 million equity obligation for the Grays Ferry Project. As of October 1, 1997, $4.9 million had been advanced to NRGG by NRG for the Grays Ferry Project. In addition, on August 28, 1997, NRG gave notice of intent to convert $3 million of its loan to NRGG into 396,255 shares of NRGG common stock. Upon the issuance of such shares, NRG will be the owner of 45.21% of the common stock of NRGG.

NEO CORPORATION

NEO is a wholly-owned project subsidiary of NRG that was formed to develop small power generation facilities, ranging in size from 1 to 50 MW, in the United States. NEO is currently focusing on the development and acquisition of landfill gas projects and the acquisition of hydroelectric projects.

Through the investment vehicle Northbrook Energy, L.L.C. ("Northbrook"), NEO presently has a 50% interest in nineteen small operating hydroelectric projects, ranging in size from 1 MW to 6 MW and having a total capacity of 39.3 MW. As of March 31, 1997, NEO's total investment in these projects is $4.0 million. NEO also has loaned $3.7 million to Omega Energy Partners, L.L.C. ("Omega") to fund Omega's 50% equity interest in Northbrook. This loan is secured by Omega's project ownership interest.

NEO also has a 50% interest in twelve operating landfill gas projects, as of September 1, 1997, ranging in size from 1 MW to 8.4 MW and having a total capacity of 40 MW. As of June 30, 1997, NEO's investment in these projects totals $1.9 million. In addition, NEO has ten landfill gas projects in varying phases of development: these projects will range in size from 1 MW to 10 MW and will have a total capacity of approximately 60 MW that is expected to go into commercial operation in 1997 and 1998. NEO expects its total equity requirements for these development projects to be approximately $55 million. NEO also has twenty-one other landfill gas projects in development that it expects to go into commercial operation in 1998. There can be no assurance that the development of any or all of these projects will in fact be successfully completed.

On September 24, 1997, certain affiliates of NEO entered into a Construction, Acquisition and Term Loan Agreement with Lyon Credit Corporation ("Lyon") for $92 million to fund the construction of the landfill gas collection system and generation facility for certain NEO landfill gas projects in development. The construction loan for each project will convert to a term loan containing a maximum maturity date of ten (10) years. NRG has agreed to provide Lyon with a guarantee during the construction loan period. In addition, NRG has agreed to guarantee the monetization and use of the Section 29 tax credits generated from the landfill gas projects financed by Lyon through the year 2007.

An important factor in the after tax return of the landfill gas projects is the eligibility of these projects for Section 29 tax credits. The Section 29 tax credit is available only to projects that produce gas from biomass or synthetic fuels from coal. Landfill gas is produced from biomass for purposes of the Section 29 credit. To qualify for the credit, the facility for producing gas must be placed in service no later than June 30, 1998.

NEO generated after tax losses of $520,000 in 1996, reflecting heavy development activity. For the six months ended June 30, 1997, NEO has generated after tax earnings of $2.3 million as compared to $75,000 for the same six month period in 1996.

CADILLAC RENEWABLE ENERGY

In July 1997, NRG, together with its partner, Decker Energy International, Inc. ("Decker"), acquired a 34 MW wood-fired steam turbine power plant, located in Cadillac, Wexford County, Michigan ("Cadillac"). NRG and Decker acquired the facility and certain other assets from Beaver Michigan Associates Limited Partnership. Electricity from the plant is sold to Consumers Energy under a long-term power purchase agreement. NRG immediately assumed operation of the 20-employee plant, now named Cadillac Renewable Energy, through a wholly-owned subsidiary.

SUNNYSIDE

The Sunnyside facility, located in Carbon County, Utah, is a 58 MW waste coal-fired facility that utilizes circulating fluidized bed technology. The Sunnyside facility is owned by Sunnyside Cogeneration Associates ("SCA"), a Utah joint venture, 50% of which is owned by NRG Sunnyside Inc. and 50% of which is owned by B&W Sunnyside L.P., an affiliate of Babcock & Wilcox. Sunnyside Operations Associates, in which affiliates of NRG and Babcock & Wilcox each hold 50% of the partnership interests, performs operations and maintenance services on behalf of SCA. As of December 31, 1996, NRG's investment in SCA was $12.5 million.

PacifiCorp purchases the energy and capacity generated by the Sunnyside facility pursuant to a power purchase agreement with an initial term expiring in 2023. PacifiCorp is obligated to pay for energy at prices based on PacifiCorp's avoided cost. PacifiCorp is obligated to pay for base capacity, up to 45 MW, at a levelized fixed price, and for additional capacity up to 53 MW, at escalating fixed prices. The

Sunnyside facility has experienced a shortfall in project cash flow attributable primarily to decreased revenues due to avoided energy rates being significantly lower than originally forecasted. In addition, higher fuel costs than originally forecasted may be incurred in the future.

These changes in the economic performance of the Sunnyside project have

caused NRG to explore options for restoring the Sunnyside project to financial health. In particular, SCA has negotiated with PacifiCorp regarding a potential restructuring of payments under the power purchase agreement, and SCA has discussed a restructuring of the project debt with its bondholders. In the absence of a restructuring of the project's debt, a debt service reserve fund, which has been used to make up cash shortfalls, is expected to be depleted at the end of 1997. There can be no assurances that either PacifiCorp or the bondholders will agree to any restructuring, nor can there be any assurances as to the actions SCA may take when and if the debt service reserve fund is depleted.

JACKSON VALLEY

The Jackson Valley cogeneration facility ("Jackson Valley"), located near Ione, California is a 16 MW fluidized bed power generation facility fueled by waste lignite. The Jackson Valley facility is owned and operated by Jackson Valley Energy Partners, L.P., a California limited partnership ("JVEP") in which NRG owns a 2% general partnership interest and a 48% limited partnership interest. The remaining 2% general partnership interest and 48% limited partnership interest are owned by partnerships formed by two individuals. The facility began operation in 1987 and has had a lifetime operating availability in excess of 90%. NRG acquired its interest in Jackson Valley in July 1991.

Jackson Valley has a long-term power sales agreement with PG&E through to 2016. On April 1, 1995, JVEP reached an agreement with PG&E regarding the partial buy-out of the capacity payments under the PPA. The plant, which had been idle since that date, restarted operations on May 1, 1997, at which time the sale of energy to PG&E recommenced under the amended PPA.

In connection with its acquisition of the Jackson Valley facility in July 1991, JVEP also acquired a montan wax manufacturing plant, three mineral leases and rights to mine lignite on property near the facility. During the period while the JVEP facility was down, the montan wax plant maintained production by receiving its power requirements from an auxiliary boiler. Litigation is pending with respect to defining the nature and extent of JVEP's rights to waste lignite from one of the several mines that supplies the project with fuel but recent negotiations appear to favor a settlement. However, since the plant is currently receiving and will for the forseeable future receive its waste lignite from several other mines, management believes that it is unlikely that this litigation will have a material adverse effect on the JVEP Partnership.

JVEP's acquisition of the power generation facility, the montan wax plant and the mineral rights was financed partially through the assumption of indebtedness under a financing facility that was outstanding at the time of the acquisition. The financing facility, which was restructured in 1995 in connection with the partial buyout, and the obligations of JVEP under the PPA, are non-recourse to NRG. The project debt was again restructured in September 1997, providing additional project capital for permitting, litigation and restart expenditures.

SAN JOAQUIN

NRG holds a 2% general partnership interest and a 43% limited partnership interest in San Joaquin Valley Energy Partners I L.P. and San Joaquin Energy Partners IV L.P. (together, the "SJVEP Partnerships"). The SJVEP Partnerships separately own the Chowchilla I, Chowchilla II, El Nido and Madera power generation facilities (the "SJVEP Facilities").

The PPAs with PG&E in respect of the SJVEP Facilities were bought-out by PG&E as part of its program of trying to end long-term power purchase agreements that impose above-market costs. The SJVEP contracts and many others like them were entered into at rates established by the California

Public Utilities Commission in the early 1980's, which by 1995 were substantially above the market cost of power. PG&E has tried to buy-out a number of these contracts in order to save money for its

ratepayers; the price of each buy-out has been negotiated based on the savings that PG&E will realize from terminating that contract. The SJVEP Partnerships agreed to terminate these power purchase contracts in exchange for the payment by PG&E of approximately $116 million. NRG received total pre-tax cash distributions of $41.8 million in 1995 and 1996 after retiring debt on the Facilities and making appropriate reserves. The project termination agreement resulted in a pretax gain of $29.9 million in 1995, at which time NRG received a $14.2 million distribution. An additional $15.7 million of cash was received in 1996. PG&E also paid the Facilities' on-going operating expenses during the time that the buyout was in progress, which accounted for $4.7 million of the total $29.9 million gain in 1995. The distributions to NRG of $14.2 million and $15.7 million were included as cash flow from investing activities in 1995 and 1996, respectively, while all other cash distributions from the project were included in operating cash flow. Litigation is pending regarding the termination of a bio-fuel supply contract in connection with the buy-out. Appropriate reserves have been made and management believes that it is unlikely that this litigation will have a material adverse effect on the SJVEP Partnerships.

As a result of this buy-out, the SJVEP Facilities have been taken out of service. On December 31, 1996, a contractor for a NEO project purchased the mechanical equipment from the Chowchilla I power generation facility. The SJVEP Partnerships' objective with respect to the other Facilities is to enter into replacement PPAs for the sale of energy and capacity and to resume operation by the end of 1997 or to sell the remaining SJVEP Facilities. No assurance can be given as to whether replacement agreements will be obtained or, if obtained, whether such agreements will be on terms favorable to the SJVEP Partnerships, or if purchasers for the SJVEP Facilities can be secured, or, if secured, whether the terms of their purchases will be favorable to the SJVEP Partnerships.

STEAM AND CHILLED WATER PRODUCTION, TRANSMISSION AND RELATED SERVICES

MINNEAPOLIS ENERGY CENTER ("MEC")

MEC provides steam and chilled water to customers in downtown Minneapolis, Minnesota. MEC currently provides 90 customers with 1.5 billion pounds of steam per year and 30 customers with 37.0 million ton hours of chilled water per year. NRG, through its wholly-owned project subsidiary NRG Energy Center, Inc. ("NRG Energy Center"), acquired MEC in August 1993 for approximately $110 million. MEC's assets include two steam and chilled water plants, three chilled water plants, two steam plants, six miles of steam and two miles of chilled water distribution lines. The MEC plants have a combined steam capacity of 1,323 mmBtus per hour (388 MWt) and cooling capacity of 35,550 tons per hour.

MEC provides steam and chilled water to its customers pursuant to energy supply agreements which expire at varying dates from December 1997 to March 2017. Historically, MEC has renewed its energy supply agreements as they near expiration. With minor exceptions, these agreements are standard form contracts providing for a uniform rate structure consisting of three components: a demand charge designed to recover MEC's fixed capital costs, a consumption charge designed to provide a per unit margin, and an operating charge designed to pass through to customers all fuel, labor, maintenance, electricity and other operating costs. The demand and consumption charges are adjusted in accordance with the Consumer Price Index ("CPI") every five years.

NRG Energy Center's acquisition of MEC was financed pursuant to an $84 million senior secured note facility. The notes are 7.31% fixed rate obligations due in 2013, with the principal amortized over the life of the loan and paid quarterly. NRG Energy Center is in the process of renewing and increasing its $10 million master shelf revolving credit facility, which it expects to have in place by the end of October 1997, pursuant to which NRG Energy Center may issue term notes with maturities no later than June 2013. The master shelf revolving credit facility could also provide for up to $5 million of short-term (i.e., less than one year) borrowings. These facilities are recourse only to NRG Energy Center.

On January 9, 1996, two NRG employees were killed in an accident at MEC that occurred while two steam pipes were being connected. NRG believes that any liability relating to this accident will be adequately covered by insurance policies (which contain customary deductibles).

NATS

In August 1995, NRG purchased from Thermal Ventures, Inc. ("TVI"), a 49% limited partnership interest in each of two district heating and cooling projects, one in San Francisco (San Francisco Thermal Limited Partnership or "SFTLP") and the other in Pittsburgh (Pittsburgh Thermal Limited Partnership or "PTLP"). NRG and TVI then established North American Thermal Systems LLC ("NATS") for the purpose of jointly owning their respective general partnership interests in these two district heating and cooling companies. In 1996, NRG paid $2.8 million to the owners of TVI and made a capital contribution of $500,000 to NATS in exchange for the sale of the 1% general partnership interests in each of PTLP and SFTLP to NATS. NRG and TVI participate equally in SFTLP and in PTLP and each owns 50% of the membership interests in NATS. As of June 1997, NRG's investment in PTLP was $3.9 million and NRG's investment in SFTLP was $5.1 million.

PTLP and SFTLP are both regulated utilities that operate under tariffs and are rate-regulated. PTLP owns and operates a district heating and cooling system that serves part of downtown Pittsburgh and has peak steam capacity of 240 mmBtus per hour (70 MWt) and 10,180 tons of chilled water per year. PTLP serves 24 customers with 300 million pounds of steam per year and 21 million ton hours of chilled water per year. SFTLP is the sole supplier of steam to downtown San Francisco, which it serves through its district heating system that has steam capacity of 490 mmBtu per hour (144 MWt). SFTLP serves approximately 210 customers with approximately 700 million pounds of steam per year that is used primarily for space and domestic heating and absorption air-conditioning.

NATS is currently considering the acquisition of several other district heating and cooling companies. NRG has agreed to make additional payments to the principals of TVI of up to an aggregate of $7 million until January 1, 2003 for reaching performance benchmarks of current and future NATS operating entities. There is no assurance that NATS will consummate any additional acquisition.

SAN DIEGO POWER & COOLING

NRG purchased the San Diego Power & Cooling Company ("SDPC") on June 25, 1997. The purchase price was $6.7 million, including a note from the seller for $2.7 million, payable over 72 months. The remaining amount, with the exception of a $50,000 contingency, was paid in cash. SDPC serves the cooling needs of fourteen major customers in the downtown San Diego central business district through an underground piping system. SDPC's chilled water capacity is 5,250 tons/hour.

ROCK-TENN

Rock-Tenn process steam operation, which is owned and operated by NRG, consists of a five-mile closed-loop steam/condensate line that delivers steam to the Rock-Tenn Company (formerly Waldorf Corporation), a paper manufacturer in St. Paul, Minnesota and has a peak steam capacity of 430 mmBtus per hour (126 MWt). Upon settlement of a 1987 dispute between NORENCO Corporation (a predecessor of NRG) and Waldorf, Waldorf elected to prepay revenues for future steam service. As of June 30, 1997, deferred revenues remaining were $5.4 million. Rock-Tenn's corrugated medium operations are on 24 hour a day, 7 day a week schedule. The corrugated medium operations represent approximately 40% of normal steam sales.

NRG delivers steam to Rock-Tenn pursuant to a steam sales agreement which expires in 2007. Under the agreement Rock-Tenn is obligated to purchase its total energy needs for its St. Paul, Minnesota facility through June 30, 2007. The agreement does not obligate Rock-Tenn to purchase a minimum quantity of energy. Instead, Rock-Tenn's failure to acquire a certain quantity of energy during a given contract year triggers an NRG right to terminate the agreement, unless Rock-Tenn elects to compensate NRG for the deficit energy usage amount.

All project debt incurred with respect to the Rock-Tenn line has been repaid. NRG maintains a $1.5 million performance bond with respect to the Rock-Tenn steam line.

WASHCO

NRG's Washco steam operation consists primarily of two steam lines and a back-up boiler facility, which were placed in service in 1986. The system has a peak steam capacity of 160 mmBtus per hour (47 MWt).

Andersen Corporation, a window manufacturer based in Bayport, Minnesota ("Andersen"), purchases approximately 200,000 mmBtus of thermal energy annually pursuant to a new ten-year agreement that expires in April 2007. Andersen is obligated to take or pay for an annual quantity of steam equal to 60% of its total of purchased and self-generated steam, on a cost plus fixed fee basis. The Minnesota Correctional Facility ("MCF"), located at Oak Park Heights, Minnesota, purchases approximately 130,000 mmBtus of thermal energy annually pursuant to an agreement that expires in December 2006. MCF purchases steam based on a fixed facility charge plus an energy charge that escalates annually in accordance with an NSP coal fuel and labor index.

GRAND FORKS

NRG's Grand Forks boiler plant facility consists of seven boilers located in Grand Forks, North Dakota that were acquired from NSP in 1990. The system has a peak steam capacity of 105 mmBtus per hour (31 MWt).

The Grand Forks facility provides approximately 400,000 mmBtus of high temperature water annually to the Grand Forks Air Force Base pursuant to an agreement that expires in September 2000. NRG is paid a fixed capacity price component, a variable price component adjusted annually based on changes in CPI and a fuel component that is a pass-through of the facility's fuel costs for high temperature water sold under the agreement.

RESOURCE RECOVERY FACILITIES

RDF projects, such as NRG's Newport facility and NSP's Elk River facility, historically were assured adequate supply of waste through state and local flow control legislation, which directed that waste be disposed of in certain facilities. In May 1994, the United States Supreme Court held that such waste was a commodity in interstate commerce and, accordingly, that flow control legislation that prohibited shipment of waste out of state was

unconstitutional. Since this ruling, the RDF facilities owned or operated by NRG have faced increased competition from landfills in surrounding states. As a result of such competition, MSW processed at the Newport facility decreased by approximately 5% in 1995, from approximately 378,000 tons in 1994 to 360,000 tons in 1995. In 1996, however, due to assistance from NRG and a reduction in tipping fees under contracts entered into between haulers and Ramsey and Washington Counties (the "Counties"), waste deliveries reversed their downward trend. In the absence of valid flow control legislation, there can be no assurance that this improved trend will continue. Various legislative proposals have been considered, including legislation that would provide relief to existing RDF facilities. No assurance can be given that such legislation will be adopted.

NEWPORT

NRG's Newport resource recovery facility, located in Newport, Minnesota, can process over 1,500 tons of MSW per day, 92% of which is recovered as RDF or other recyclables and reused in power generation facilities in Red Wing and Mankato, Minnesota. The Newport facility, which was originally constructed and operated by NSP, was transferred to NRG in 1994. NRG owns 100% of and operates and maintains the Newport facility.

The construction of the Newport facility was financed through the issuance by the Counties of tax exempt variable rate resource recovery revenue bonds, which have subsequently been converted to fixed rate resource recovery revenue bonds with annual maturities each December through to 2006. The proceeds of such bond issuance were loaned by the Counties to NSP, which agreed to pay to the Counties amounts sufficient to pay the debt service on the bonds. NRG issued a separate note to NSP in an original principal amount of approximately $10 million as part of the consideration for the purchase of the facility from NSP. As of June 30, 1997, $19.8 million was outstanding on the Counties' loan to NSP and $8.4 million was outstanding under NRG's note to NSP.

Pursuant to service agreements with the Counties, which expire in 2007, NRG processes a minimum of 280,800 tons of MSW per year and receives service fees based on the amount of waste

processed, pass-through costs and certain other factors. NRG is also entitled to an operation and maintenance fee, which is designed to recover fixed costs and to provide NRG a guaranteed amount for operating and maintaining the facility for the processing of 750 tons per day of MSW, whether or not the Counties deliver such waste for processing.

To increase MSW flows and improve facility competitiveness, the Counties reduced tipping fees charged to haulers under long-term delivery contracts. The tip fee reduction became effective as of June 1, 1996 and is effective under those contracts until the end of 1998. MSW deliveries for the six months ended June 30, 1997 were 17% higher than the same period in 1996.

Minnesota Waste Processors L.L.C. ("Minnesota Waste Processors"), a limited liability company which is 50% owned by each of NRG and LJP Enterprises, Inc., collects MSW from several cities in southern Minnesota for processing at the Newport facility. NRG also uses Minnesota Waste Processors' primary asset, a large warehouse, as a temporary RDF storage facility to enable more efficient utilization of RDF as a feedstock to NSP's Wilmarth generating plant. The $2 million storage and transfer warehouse owned by Minnesota Waste Processors has been financed through a loan from NRG to Minnesota Waste Processors. In the event of a default on such loan, NRG's recourse likely would be limited to foreclosure on the warehouse.

ELK RIVER

Since 1989, NRG has operated the Elk River resource recovery facility located in Elk River, Minnesota, which can process over 1,500 tons of MSW per day, 90% of which is recovered as RDF or other recyclables and reused in power generation facilities in Elk River and Mankato, Minnesota. NSP owns 85% of the Elk River facility, and United Power Association owns the remaining 15%.

Pursuant to service agreements between NSP and each of Anoka County, Hennepin County, Sherburne County in Minnesota and the Tri-County Solid Waste Management Commission in Minnesota (the "NSP Service Counties"), all of which expire in 2009, NSP is obligated to process a maximum of 450,000 tons of MSW per year and is entitled to receive service fees based on the amount of waste processed, pass-through costs, revenues credited to the NSP Service Counties and certain other factors. NSP is also entitled to an operation and maintenance fee, which is designed to recover fixed costs and to provide NSP a guaranteed amount for operating and maintaining the facility for the processing of 214,900 tons of waste, whether or not the NSP Service Counties deliver such waste for processing.

NRG also provides ash storage and disposal for the Elk River facility at NSP's Becker ash disposal facility, an approved ash deposit site adjacent to NSP's Sherburne County generating facility near Becker, Minnesota. NRG operates the Becker facility on behalf of NSP. Pursuant to an ash management services agreement between NSP and the NSP Service Counties, the NSP Service Counties pay an ash disposal fee based on the amount of ash disposal, pass-through costs and certain other factors.

Prior to 1996, NRG managed Elk River and Becker Ash on behalf of NSP under a cost reimbursement arrangement. NRG did not earn a profit with respect to providing such services. As of January 1, 1996, NRG entered into an operation and maintenance agreement with NSP with respect to the Elk River Facilities, under which NRG receives a base management fee and is reimbursed for costs it has incurred. The operation and maintenance agreement also provides for a management incentive fee payable to NRG, based upon the financial performance of the Elk River Facilities.

In 1996 NRG earned a total management fee of $1.5 million, in addition to reimbursed expenses. Management fees for the six months ended June 30, 1997, totalled $633,000 compared to $508,000 for the same period in 1996.

PRINCIPAL CUSTOMERS OF OPERATING SUBSIDIARIES

Customers accounting for more than 10% of NRG's operating revenues (which exclude equity in earnings of projects) in each of the last two fiscal years were as follows:

	YEAR ENDED DECEMBER 31,	
	1995	1996
	(IN MILLIONS)	
Ramsey and Washington Counties, Minnesota (Resource Recovery)	$20.6	$20.8
Waldorf Corporation (Thermal Energy)	10.0	10.1

PROPERTIES

In addition to NRG's properties listed under the heading "Business -- Description of NRG's Projects," NRG leases its offices at 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota 55403, under a five-year lease that expires in June 2002.

NRG believes that its facilities and properties have been satisfactorily maintained, are in good condition, and are suitable for NRG's operations.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

NRG experiences routine litigation in the course of its business. Management is of the opinion that none of this routine litigation will have a material adverse effect on the consolidated financial condition of NRG.

EMPLOYEES

At June 30, 1997, NRG employed 842 people, approximately 307 of whom are employed directly by NRG and approximately 535 of whom are employed by its wholly-owned subsidiaries. Approximately 550 employees are covered by collective bargaining agreements.

REGULATION

NRG is subject to a broad range of federal, state and local energy and environmental laws and regulations applicable to the development, ownership and operation of its United States and international projects. These laws and regulations generally require that a wide variety of permits and other approvals be obtained before construction or operation of a power plant commences and that, after completion, the facility operate in compliance with their requirements. NRG strives to comply with the terms of all such laws, regulations, permits and licenses and believes that all of its operating plants are in material compliance with all such applicable requirements. No assurance can be given, however, that in the future all necessary permits and approvals will be obtained and all applicable statutes and regulations complied with. In addition, regulatory compliance for the construction of new facilities is a costly and time-consuming process, and intricate and rapidly changing environmental regulations may require major expenditures for permitting and create the risk of expensive delays or material impairment of project value if projects cannot function as planned due to changing regulatory requirements or local opposition. Furthermore, there can be no assurance that existing regulations will not be revised or that new regulations will not be adopted or become applicable to NRG which could have an adverse impact on its operations.

In particular, the independent power market in the United States, Australia and other countries is dependent on the existing regulatory and ownership structure, and while NRG strives to take advantage of the opportunities created by such changes, it is impossible to predict the impact of those changes on NRG's operations. Further, NRG believes that the level of environmental awareness and enforcement is growing in most countries, including most of the countries in which NRG intends to develop and operate new projects. Therefore, based on current trends, NRG believes that the nature and level of environmental regulation to which it is subject will become increasingly stringent. NRG's policy is therefore to operate its projects in accordance with environmental guidelines adopted by the World Bank and applicable local law.

ENERGY REGULATION IN THE UNITED STATES

The enactment of PURPA in 1978 provided incentives for the development of Qualifying Facilities or "QFs", which were basically cogeneration facilities and small power production facilities that utilized certain alternative or renewable fuels. The passage of the Energy Policy Act in 1992 further encouraged independent power production by providing certain exemptions from

regulation for EWGs and "foreign utility companies" ("FUCOs").

All of NRG's domestic projects are currently Qualifying Facilities under PURPA, except for Parlin which is an EWG. These QF projects are as follows: Sunnyside, Jackson Valley, Artesia, all of the NRGG Facilities (except for Parlin) and all of the NEO Facilities. QF status conveys two primary benefits. First, regulations under PURPA exempt Qualifying Facilities from PUHCA, most provisions of the Federal Power Act and the state laws concerning rates of electric utilities, and financial and organizational regulations of electric utilities. Second, FERC's regulations under PURPA require that (1) electric utilities purchase electricity generated by QFs at a price based on the purchasing utility's full avoided cost of producing power, (2) the electric utilities must sell back-up, interruptible, maintenance and supplemental power to the QF on a non-discriminatory basis, and (3) the electric utilities must interconnect with any QF in its service territory, and if required transmit power if they do not purchase it.

NRG endeavors to acquire, develop and operate its domestic plants, monitor regulatory compliance by such plants and choose its customers in a manner that minimizes the risk of those plants losing their QF status. However, the occurrence of events outside NRG's control, such as loss of a cogeneration plant's steam customer, could jeopardize QF status. While a plant usually would be able to react in a manner to avoid the loss of QF status by, for example, replacing the steam customer or finding another use for the steam which meets PURPA's requirements, there is no certainty that such action, if possible, would be practicable or economic. In the alternative, NRG could attempt to avoid regulation under PUHCA by qualifying the project as an EWG, as is the case with the NRGG Parlin cogeneration facility. However, this change may not be permitted under the terms of the applicable power purchase agreement, and even if it were, the plant would then be subject to rate approval from the FERC.

While it is unlikely that one of NRG's plants would actually lose its status as a QF and not become an EWG, if that did occur, NRG would in all likelihood have to cease operation of that plant or sell the plant to an unaffiliated third party if NRG could not restore QF status after a reasonable cure period. If it continued to operate, the project subsidiary holding that plant would lose the exemptions outlined above and would become an electric utility or EWG. This could result in NRG inadvertently becoming a "public utility holding company" under PUHCA by owning more than 10% of the voting securities of an electric utility. Loss of QF status on a retroactive basis could also lead to, among other things, fines and penalties being levied against NRG and its project subsidiaries, defaults under the power purchase agreement and resulting claims by the utility customer for the refund of previous payments, and defaults under financing agreements.

Currently, Congress is considering proposed legislation that would amend PURPA by eliminating the requirement that utilities purchase electricity from QFs at prices based on the purchasing utility's avoided cost. NRG does not know whether such legislation will be passed or what form it may take. NRG believes that if any such legislation is passed, it would apply to new projects only and thus, although potentially impacting NRG's ability to develop new domestic QF projects, it would not affect NRG's existing QF projects. There can be no assurance, however, that any legislation passed would not adversely impact NRG's existing domestic projects.

In any case, NRG anticipates that most of its future domestic development activities will focus on the development of EWGs rather than QFs. An EWG is an entity that is exclusively engaged, directly or indirectly, in the business of owning or operating facilities which are exclusively engaged in generating and selling electric energy at wholesale. An EWG will not be regulated under PUHCA, but is subject to FERC and state public utility commission regulatory reviews, including rate approval.

In its future development and acquisition of domestic projects, NRG may also be subject to regulation by the FERC if NRG wheels electricity to

purchasers other than the local utility to which the plant is interconnected. Although wheeling arrangements are generally voluntary, the FERC regulates the rates, terms and conditions for electricity transmission in interstate commerce. Currently, none of NRG's projects requires the wheeling of electricity over power lines owned by others.

If it develops or acquires domestic EWGs rather than QF's in the future, NRG may also be subject to some regulation by state public utility commissions ("PUCs"), because EWGs do not enjoy the same statutory and regulatory exemptions from state regulation as was granted to QF's. In fact, however, since EWGs are only allowed to sell power at wholesale, their rates must receive initial approval from the FERC rather than the states. But in areas outside of rate regulation (such as financial or organizational regulation), some state utility laws may give their PUCs broad jurisdiction over non-QF independent power projects that sell power in their service territories, including EWGs. The actual scope of that jurisdiction over independent power projects varies significantly from state to state, depending on the law of that state. In addition, many states are implementing or considering regulatory initiatives designed to increase competition in the domestic power generating industry and increase access to electric utilities' transmission and distribution systems for independent power producers and electricity consumers. At the same time, electric utility companies themselves are considering a variety of restructuring proposals, including mergers, acquisitions and divestitures of one or more lines of business. NRG believes that the training and experience of many of its employees in the electric utility industry have prepared it to take advantage of these many changes in the industry. However, NRG cannot predict the final form or timing of these changes in the domestic utility industry or the results of these changes on its operations.

ENVIRONMENTAL REGULATIONS -- UNITED STATES

The construction and operation of power projects are subject to extensive environmental protection and land use regulation in the United States. These laws and regulations often require a lengthy and complex process of obtaining licenses, permits and approvals from federal, state and local agencies. If such laws and regulations are changed and NRG's facilities are not grandfathered, extensive modifications to project technologies and facilities could be required.

Based on current trends, NRG expects that environmental and land use regulation will continue to be stringent. Accordingly, NRG plans to continue a strong emphasis on the development and use of "best-available" control technology, as required under the Clean Air Act and Clean Water Act, to minimize the environmental impact of its operations.

All of NRG's domestic facilities perform at levels equal to or better than applicable federal performance standards mandated for such plants under the Clean Air Act. NRG believes that technology currently installed at NRG's projects should uniformly meet or exceed reasonably available control technology (RACT). In addition, all of NRG's current domestic operating plants are by statute generally exempt from or unaffected by the provision of the 1990 amendments to the Clean Air Act (the "1990 Amendments"), which require most power plants to purchase sulphur dioxide allowances. In the future, the plants NRG expects to develop in the United States will continue to rely on "clean (low sulfur) coal," sulphur dioxide removal technology or natural gas technology. Accordingly, NRG believes that the additional costs of obtaining the number of allowances needed for future projects should not materially affect NRG's ability to develop such projects.

The 1990 Amendments also provide an extensive new operating permit program for existing sources. Because all of the existing NRG facilities (with the exception of the NATS facilities) were permitted under the Prevention of Significant Deterioration or other New Source Review program, NRG currently expects that the permitting impact under the 1990 Amendments to be minimal. NATS currently is evaluating whether any of its facilities will require

modification. NRG anticipates that the costs of applying for and obtaining operating air permits will not be material. NRG may need to upgrade continuous emission monitoring systems at some plants, however, and permit fees will increase operating expenses.

The hazardous air pollutant provisions of the 1990 Amendments presently exclude electric steam generating facilities, such as NRG's plants. Until studies of the emissions from such facilities are completed and Congress either amends the Clean Air Act further or the EPA promulgates regulations in connection therewith, the nature and extent of federal hazardous air pollutants emissions restrictions which will be applied to NRG's plants and other electric steam generating facilities will remain uncertain.

NRG has received notices of violation and fines totaling approximately $250,000 from the New Jersey Department of Environmental Protection ("NJDEP") in connection with certain technical and record keeping violations under the Clean Air Act at the former O'Brien Energy facilities in New Jersey. NRG detected and voluntarily disclosed these violations to the NJDEP shortly after NRG's acquisition of its interest in the O'Brien facilities. Because NRG did not receive any economic advantage from these violations and disclosed them promptly and voluntarily, NRG has recently filed administrative proceedings seeking forgiveness of the fines. In addition, NRG believes that the former operator of these facilities is contractually responsible for payment of any fines that are assessed, because the violations occurred during a time when that third-party operator managed the facilities.

Existing NRG facilities are also subject to a variety of state and federal regulations governing existing and potential water/wastewater discharges from the facilities. Generally, federal regulations promulgated through the Clean Water Act govern overall water/wastewater discharges, through NPDES permits. Under current provisions of the Clean Water Act, existing permits must be renewed every five years, at which time permit limits are extensively reviewed and can be modified to account for changes in regulations. In addition, the permits have re-opener clauses which the federal government can use to modify a permit at any time. NRG does not anticipate, however, that any change in permit limits pursuant to these provisions of the Clean Water Act would affect significantly the profitability of NRG's facilities.

Congress is considering whether to re-authorize the Clean Water Act, with reauthorization focusing on toxic discharges, receiving water body biological monitoring requirements, bioassay requirements, additional controls on stormwater runoff, and water quality standards and enforcement provisions. It is uncertain whether the Clean Water Act will become more or less stringent after re-authorization. If the Clean Water Act becomes more stringent, NRG facilities may be required to retrofit existing wastewater treatment facilities for metals removal and to budget for additional monitoring requirements and toxicity reduction evaluations. NRG does not expect the impact of these additional expenses to affect significantly the profitability of the facilities.

There can be no assurance that existing laws and regulations will not be revised or that new regulations will not be adopted or become applicable to NRG which could have an adverse impact on its operations.

ENVIRONMENTAL REGULATIONS -- INTERNATIONAL

Although the type of environmental laws and regulations applicable to independent power producers and developers varies widely from country to country, many foreign countries have laws and regulations relating to the protection of the environment and land use which are similar to those found in the United States. Laws applicable to the construction and operation of electric power generation facilities in foreign countries generally regulate discharges and emissions into water and air, and also regulate noise levels. Air pollution laws in foreign jurisdictions often limit the emissions of particles, dust, smoke, carbon monoxide, sulfur dioxide, nitrogen oxides and

other pollutants. Water pollution laws in foreign countries generally limit wastewater discharges into municipal sewer systems and require treatment of wastewater so that it meets established standards. New projects and modifications to existing projects are also subject, in many cases, to land use and zoning restrictions imposed in the foreign country. In addition to the requirements currently imposed by a particular country, certain lenders to international development projects may impose their own requirements relating to the protection of the environment.

NRG believes that the level of environmental awareness and enforcement is growing in most countries, including most of the countries in which NRG intends to develop and operate new projects. Therefore, based on current trends, NRG believes that the nature and level of environmental regulation to which it is subject will become increasingly stringent. NRG's policy is to operate its projects at least in accordance with environmental guidelines adopted by the World Bank and applicable local law.

GERMAN REGULATIONS

Both the Schkopau Power Station and MIBRAG are subject to the energy and environmental laws and regulations of Germany. German environmental laws conform to European Union standards. In addition, MIBRAG is governed by German mining laws and regulations.

ENVIRONMENTAL REGULATIONS

The Schkopau facility is designed to comply with all applicable German laws and regulations, including, without limitation, environmental and land use laws and regulations. The power purchase agreement between Saale Energie and VEAG provides that any future changes in law that may affect the cost of providing the contracted capacity will lead to adjustment of the price.

In the case of existing power generating facilities located in eastern Germany, current German environmental laws and regulations are being phased-in in a manner that provides for a gradual step-up of the environmental standards applicable to such facilities. All east German power generating facilities were required to be in full compliance with German environmental laws and regulations by July 1, 1996. MIBRAG's W|f3hlitz, Mumsdorf and Deuben facilities have been retrofitted and are presently in full compliance with these laws and regulations The power purchase agreement between MIBRAG and WESAG provides that any future changes in the law that may materially affect the cost of generating power will reopen the price.

ENERGY REGULATIONS

The Schkopau facility and all three power generating facilities of MIBRAG are permitted to generate and sell energy to their present customers pursuant to current German energy laws and regulations. Should the Schkopau facility or any of the MIBRAG power generating facilities wish to sell to additional customers, this would require further regulatory approval.

The German government currently is considering substantially amending the German Energy Resources Act of 1936. The bill currently before the German Parliament will not affect the regulatory status of the Schkopau or MIBRAG facilities. However, it is not possible at present to determine whether the bill will be enacted in its current form or whether an amendment, if enacted, would have an adverse effect on the regulatory status of those facilities.

The current German government has dismissed plans to enact an energy related tax or other surcharge. However, certain political factions in Germany and within the European Union continue to press for such a tax or surcharge. There can be no assurance that such a tax or surcharge will not be enacted in the future.

MINING REGULATIONS

MIBRAG owns the mining rights to the Profen and Schleenhain mines and leases mining rights to the Zwenkau mine. MIBRAG currently is operating all three of its mines in compliance with current German mining regulations.

AUSTRALIAN REGULATIONS

The electricity sector in Queensland is regulated primarily under the Electricity Act. The Electricity Act was recently amended to provide for independent generation and the licensing of independent generators by the Regulator General. Pursuant to the Electricity Act, the State Minister for Energy and the Regulator General have the authority to promulgate regulations governing the Queensland electricity industry.

In Victoria, the primary laws providing for the economic regulation of the Victorian electricity industry are the Electricity Industry Act 1993 (Vic) and the Office of the Regulator-General Act 1994 (Vic). The ongoing regulation of the Victorian electricity industry is the responsibility of the Office of the Regulator-General, an independent regulatory body established under the Office of the Regulator-General Act.

Environmental management in Victoria is primarily governed by the Environment Protection Act 1970 (Vic). The primary control instruments under the EPA are licenses issued by the Environment Protection Authority (the environmental regulatory agency established under the EPA). The EPA was amended in 1990 and now provides for severe penalties for company directors, managers and employees in cases of gross environmental misconduct.

Although discussed in Victoria, it is considered unlikely that a carbon tax will be introduced in the foreseeable future. Even if one is introduced, the tax would have to operate at very high levels before it could significantly affect Loy Yang's competitiveness in the wholesale electricity market.

MANAGEMENT

The name, age and title of each of the directors and executive officers of NRG as of October 1, 1997 are as set forth below.

NAME	AGE	TITLE
David H. Peterson	56	Chairman of the Board, President, Chief Executive Officer and Director
Gary R. Johnson	50	Director
Cynthia L. Lesher	49	Director
Edward J. McIntyre	46	Director
John A. Noer	51	Director
Leonard A. Bluhm	51	Executive Vice President and Chief Financial Officer
James J. Bender	40	Vice President and General Counsel
Valorie A. Knudsen	41	Vice President, Finance
Craig A. Mataczynski	37	Vice President, U.S. Business Development
Robert McClenachan	46	Vice President, International Business Development
Louise T. Routhe	41	Vice President, Human Resources and Administration
Ronald J. Will	57	Vice President, Operations and Engineering
Brian B. Bird	35	Treasurer
David E. Ripka	48	Controller
Michael J. Young	40	Corporate Secretary

David H. Peterson has been Chairman of the Board of NRG since January 1994, Chief Executive Officer since November 1993, President since 1989 and a Director since 1989. Mr. Peterson was also Chief Operating Officer of NRG

from June 1992 to November 1993. Prior to joining NRG, Mr. Peterson was Vice President, Non-Regulated Generation for NSP, and he has served in various other management positions with NSP during the last 20 years.

Cynthia L. Lesher has been a Director of NRG since July 1996 and became President of NSP Gas in July 1997. Prior to July 1997, Ms. Lesher was Vice President-Human Resources of NSP since March 1992 after serving as Director of Power Supply-Human Resources since 1991. Ms. Lesher became Area Manager, Electric Utility Operations, in 1990, and previously served as Manager, Metro Credit, and Manager, Occupational Health and Safety. Prior to joining NSP, Ms. Lesher was a training and development consultant at the Center for Continuing Education in Minneapolis. From 1970 to 1977, she held a variety of positions with Multi Resource Centers, Inc., also in Minneapolis.

Gary R. Johnson has been a Director of NRG since February 1993, Corporate Secretary of NSP since April 1994 and Vice President and General Counsel of NSP since October 1991. Prior to October 1991, Mr. Johnson was Vice President-Law of NSP from December 1988, acting Vice President from September 1988 and Director of Law from February 1987.

Edward J. McIntyre has been a Director of NRG since May 1992 and Vice President and Chief Financial Officer of NSP since January 1993. Mr. McIntyre has also been a director of NSP subsidiaries Viking Gas Transmission Company since June 1993, Eloigne Company since August 1993 and First Midwest Auto Park, Inc. since September 1993, and Cenerprise since September 1994, where he served as Chairman from 1994 to 1996. Mr. McIntyre served as President and Chief Executive Officer of NSP-Wisconsin, a wholly owned subsidiary of NSP, from July 1990 to December 1992, and he has served in various other management positions with NSP during the last 20 years.

John A. Noer has been a director of NRG since June 1997 and President and CEO of NSP Wisconsin, a wholly owned subsidiary of NSP, since January 1993. Prior to joining NSP Wisconsin, Mr. Noer was President of Cypress Energy Partners, a wholly-owned project subsidiary of NRG, from March 1992 to January 1993. Prior to joining Cypress Energy Partners, Mr. Noer held various management positions with NSP since joining the company in September 1968.

Leonard A. Bluhm has been Executive Vice President and Chief Financial Officer of NRG since January 1997. Immediately prior to that, he served as the first President and Chief Executive Officer of NRGG, of which he is now Chairman. Mr. Bluhm was Vice President of NRG from January 1993 and Chief Financial Officer May 1993 until assuming his NRGG position. Mr. Bluhm was Chief Financial

Officer of Cypress Energy Partners, a wholly-owned project subsidiary of NRG, from April 1992 to January 1993, prior to which he was Director, International Operations and Manager, Acquisitions and Special Projects of NRG from 1991. Mr. Bluhm previously served for over 20 years in various financial positions with NSP.

James J. Bender has been Vice President and General Counsel of NRG since June 1997. He served as the General Counsel of the Polymers Division of Allied Signal Inc. from May 1996 until June 1997. From June 1994 to May 1996 Mr. Bender was employed at NRG, acting as Senior Counsel until December 1994 and as Assistant General Counsel and Corporate Secretary from December 1994 to May 1996. Prior to joining NRG in 1994, Mr. Bender was a partner at the Minneapolis law firm of Leonard, Street and Deinard from April 1993 to June 1994 and he served as Corporate Counsel for Pfizer Inc. from August 1989 to April 1993.

Valorie A. Knudsen has been Vice President, Finance since April 1996, prior to which she served as Controller since August 1993. Prior to joining NRG, Ms. Knudsen served in various managerial accounting positions from November 1987 to July 1993 with Carlson Companies, Inc., where she was responsible for various types of accounting and reporting.

Craig A. Mataczynski has been Vice President, U.S. Business Development of NRG since December 1994. Mr. Mataczynski served as President of NEO Corporation, NRG's wholly-owned subsidiary that develops small electric generation projects within the United States, from May 1993 to January 1995. Prior to joining NRG, Mr. Mataczynski worked for NSP from 1982 to 1994 in various positions, including Director, Strategy and Development and Director, Power Supply Finance.

Robert McClenachan has been Vice President, International Business Development of NRG since September 1995, prior to which he was Managing Director, Business Development from June 1992 to September 1995. Mr. McClenachan was also President of NRG Australia, a wholly-owned project subsidiary of NRG, from April 1993 to October 1995. Prior to joining NRG, Mr. McClenachan served as Development Director for Bonneville Pacific Corporation, an independent power production company in Salt Lake City, Utah, from January 1991 to December 1991, and he worked from 1983 to 1991 in various positions for Central Vermont Public Service Corporation, including Vice President, Corporate Development.

Louise T. Routhe has been Vice President, Human Resources and Administration of NRG since June 1992, prior to which she served as Human Resources Director from January 1992. Prior to joining NRG, Ms. Routhe was self-employed as a Human Resources and Management Consultant from December 1990 to January 1992 and worked as Vice President, Human Resources with First Trust Company, a wholly-owned subsidiary of First Bank System, Inc., from 1987 to 1990. Ms Routhe held various other Human Resources management positions at First Bank System from 1979 to 1987.

Ronald J. Will has been Vice President, Operations and Engineering of NRG since March 1994, prior to which he served as Vice President, Operations from June 1992. Prior to joining NRG, he served as President and Chief Executive Officer of NRG Thermal, a wholly-owned subsidiary of NRG that provides customers with thermal services, from February 1991 to June 1993. Prior to February 1991, Mr. Will served in a variety of positions with Norenco, a wholly-owned thermal services subsidiary of NRG, including Vice President and General Manager from August 1989 to February 1991.

Brian B. Bird has been Treasurer of NRG since June 1997, prior to which he was Director of Corporate Finance for Deluxe Corporation in Shoreview, Minnesota from September 1994 to May 1997. Mr. Bird was Manager of Finance for the Minnesota Vikings Professional Football Team from March 1993 to September 1994. Mr. Bird held several financial management positions with Northwest Airlines in Minneapolis, Minnesota from 1988 to March 1993.

David E. Ripka has been Controller of NRG since March 3, 1997. Prior to joining NRG, Mr. Ripka held a variety of positions with NSP for over 20 years, including Assistant Controller and General Manager of Accounting Operations and Director of Audit Services.

Michael J. Young has been Corporate Secretary of NRG since June 1996, and also holds the position of Senior Counsel. Prior to joining NRG in May of 1995, Mr. Young was an attorney at Cargill, Incorporated for five years, and an associate at Lindquist & Vennum for three years.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Compensation. The following table sets forth the compensation paid or awarded to David H. Peterson, Chairman, President and Chief Executive Officer of NRG, and the other four most highly compensated executive officers of NRG during the last fiscal year (collectively, the "Named Executives") for services rendered in all capacities for the last fiscal year.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSATION (1) ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION (2) ($)
David H. Peterson Chairman, President & Chief Executive Officer	1996	250,000	81,000			3,637
Leonard A. Bluhm (3) Executive Vice President & CFO	1996	152,333	53,630		105,000(4)	2,712
Robert McClenachan Vice President, International Business Development	1996	150,000	36,201	37,410		2,712
Ronald J. Will Vice President, Operations & Engineering	1996	147,000	38,667			2,712
Craig A. Mataczynski Vice President, U.S. Business Development	1996	145,000	40,343			2,712

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(1) The amount shown in this column for Mr. McClenachan includes a relocation and foreign assignment premium bonus ($19,616) and the value of the personal use of a company-provided automobile ($7,986).

(2) This column consists of the amounts contributed by NRG to the NSP Retirement Savings Plan ($900) and the Employee Stock Ownership Plan ($1,812.89) for each Named Executive. The column also reflects the value to Mr. Peterson of the remainder of insurance premiums paid under the NSP Officer Survivor Benefit Plan by NRG ($925).

(3) Mr. Bluhm's salary and bonus include amounts paid for his service with NRGG.

(4) These options relate to NRGG common stock. See "Option Grants in Last Fiscal Year."

The following table sets forth information concerning the exercise of stock options and stock appreciation rights during fiscal 1996 by each of the Named Executives and the fiscal year-end value of unexercised options. Prior to the existence of the NRG Equity Plan, NRG executives participated in the NSP Executive Stock Option program. The following table reflects the Named Executive's participation in the NSP Executive Stock Option Program.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR, AND FY-END OPTION/SAR VALUE (1)

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (#) EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END ($)(2) EXERCISABLE/ UNEXERCISABLE
David H. Peterson	8,415/0	44,213/0
Leonard A. Bluhm	2,840/0	18,117/0
	0/105,000(3)	0/610,313(3)
Robert McClenachan	859/0	2,048/0
Ronald J. Will	2,723/0	17,839/0

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(1) These options to acquire NSP Stock were granted to the Named Executives for services rendered to NRG and its subsidiaries.

(2) NSP's share price on December 31, 1996 was $45.875.

(3) These options relate to NRGG common stock. The options were granted at an exercise price of $5.4375. The price per share of NRGG common stock on December 31, 1996 was $11.25. 75,000 of these options were cancelled in January, 1997. See "Option Grants in Last Fiscal Year."

OPTION GRANTS IN LAST FISCAL YEAR (1)

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM 5% ($)(3)	10% ($)(3)
Leonard A. Bluhm.....	105,000(2)	26	5.4375	10/21/2006	359,100	909,930

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(1) These options relate to NRGG common stock. Options were granted to Mr. Bluhm under the NRG Generating (U.S.) Inc. 1996 Stock Option Plan. The options vest one-third annually on each of the first, second and third anniversaries of grant.

(2) By agreement with NRGG, options to acquire 75,000 of these shares were withdrawn in January, 1997.

(3) Amounts set forth in these columns reflect rates of appreciation required by Securities and Exchange Commission rules and are not intended to predict the future value of NRGG common stock.

PENSION PLAN TABLE

The following table illustrates the approximate retirement benefits payable to employees retiring at the normal retirement age of 65 years:

AVERAGE COMPENSATION (4 YEARS)	ESTIMATED ANNUAL BENEFITS FOR YEARS OF SERVICE INDICATED — YEARS OF SERVICE 5	10	15	20	25	30
$ 50,000	$ 3,500	$ 7,000	$ 10,500	$ 14,000	$ 18,000	$ 21,500
100,000	7,500	15,500	23,000	30,500	38,000	46,000
150,000	11,500	23,500	35,000	47,000	58,500	70,500
200,000	16,000	31,500	47,500	63,000	79,000	95,000
250,000	20,000	40,000	59,500	79,500	99,500	119,500
300,000	24,000	48,000	72,000	96,000	120,000	144,000
350,000	28,000	56,000	84,000	112,500	140,500	168,500
400,000	32,000	64,500	96,500	128,500	160,500	193,000
450,000	36,000	72,500	108,500	145,000	181,000	217,500
wage base:	$62,700					

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After an employee has reached 30 years of service, no additional years are used in determining pension benefits. The annual compensation used to calculate the average compensation shown in this table is based on the participant's base salary for the year (as shown on the Summary Compensation Table) and bonus compensation paid in that same year (as shown on the Summary Compensation Table). The benefit amounts shown are amounts computed in the form of a straight-life annuity. The amounts are not subject to offset for social security or otherwise.

As of June 30, 1997, each of the Named Executives had the following credited service: Mr. Peterson, 33.42 years, Mr. Bluhm, 26 years, Mr. McClenachan, 5 years, Mr. Will, 37.17 years, Mr. Mataczynski, 15 years.

LONG-TERM INCENTIVE PLAN COMPENSATION

The following table sets forth information concerning awards during fiscal 1996 to each of the Named Executives under the NRG Equity Plan.

LONG-TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR(1)

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS (#)	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT(2)
David H. Peterson ...	5,500(3)	7 years
	18,200(4)	7 years
Leonard A. Bluhm	1,300(3)	7 years
	1,700(4)	7 years
Robert McClenachan ..	3,400(3)	7 years
	4,500(4)	7 years
Ronald J. Will.....	3,600(3)	7 years
	4,800(4)	7 years
Craig A.	3,800(3)	7 years
Mataczynski.....	5,000(4)	7 years

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(1) Participants in the NRG Equity Plan are granted Equity Units, each of which is assigned a "Grant Price" at the discretion of the Chief Executive Officer and the Compensation Committee of the Board. Equity Units are valued upon vesting under a formula which takes into account the Company's cash flow, revenue growth, total debt and equity investment, among others. The amount of payment (if any) with respect to an Equity Unit is determined by the extent to which the value of the Equity Unit exceeds the Grant Price. The NRG Equity Plan does not contain threshold levels of performance or maximum payment amounts (or equivalent items).

(2) Equity Units vest annually in 20% increments, beginning on the third anniversary of the grant date of the Equity Unit. Participants are paid the value (if any) of Equity Units as soon as practicable following the end of year in which the Equity Unit vests.

(3) These Equity Units were granted at a Grant Price equal to the valuation of the Equity Unit on the date of grant. Such Equity Units will have value to the holders upon any increase in the valuation of the Equity Unit.

(4) These Equity Units were granted at a premium Grant Price (greater than the valuation of the Equity Unit on the date of grant). Such Equity Units will only have value to the holder after the valuation of the Equity Unit reaches the premium Grant Price.

Compensation of Directors.

Directors receive no compensation for service as directors.

Employment Contracts.

NRG has entered into an employment agreement with Mr. Peterson providing that Mr. Peterson will be employed as the highest level executive officer of NRG. The term of the agreement expires June 27, 2000. During the term of the agreement, Mr. Peterson's base salary will be reviewed at least annually by the Compensation Committee of the Board for possible increase. The agreement provides that Mr. Peterson will receive retirement and welfare benefits no less favorable than those provided to any other officer of NRG. In addition, the employment agreement provides for participation in a supplemental

executive retirement plan such that the aggregate value of the retirement benefits that Mr. Peterson and his spouse will receive at the end of the term of the agreement under all the defined benefit pension plans of NRG and its affiliates will not be less than the aggregate value of the benefits he would have received had he continued, through the end of the term of the agreement, to participate in the NSP Deferred Compensation Plan, the NSP Excess Benefit Plan and the NSP Pension Plan, including amounts to compensate Mr. Peterson for the monthly defined benefit payments he would have received during the term of the employment agreement and prior to the date of his termination of employment if monthly benefit payments had commenced following the month in which he first became eligible for early retirement under the NSP Pension Plan. The employment agreement also provides for certain additional

benefits to be paid upon Mr. Peterson's death. If Mr. Peterson's employment is terminated by the company without Cause or by Mr. Peterson with Good Reason (in each case as defined in the employment agreement), Mr. Peterson will continue to receive his salary, bonus (at greater of target bonus and actual bonus for the last plan year prior to termination), incentive compensation (with cash replacing equity based awards) and benefits under the agreement as if he had remained employed until the end of the term of the employment agreement and then retired (at which time he will be treated as eligible for retiree welfare benefits and other benefits provided to the retired senior executives).

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The compensation committee is comprised of Ms. Lesher and Mr. McIntyre. There are no compensation committee interlocks and no insider participation.

OWNERSHIP OF CAPITAL STOCK

Northern States Power Company, 414 Nicollet Mall, Minneapolis, Minnesota 55401, owns all of the outstanding capital stock of NRG.

CERTAIN TRANSACTIONS

The transactions described or referred to below were entered into between related parties prior to the offering of the Senior Notes and were not the result of arms-length negotiations. Accordingly, the terms of these transactions may be more or less favorable to NRG than if they had been entered into on an arms-length basis.

As NRG's sole stockholder, NSP has the power to control the election of the directors and all other matters submitted for stockholder approval and may be deemed to have control over the management and affairs of NRG. Currently, there are no outside directors on NRG's board of directors. In circumstances involving a conflict of interest between NSP, as the sole stockholder and a significant customer of and supplier to NRG, and the holders of the Senior Notes as creditors of NRG, there can be no assurance that NSP would not exercise its power to control NRG in a manner that would benefit NSP to the detriment of the holders of the Senior Notes. NSP has policies in place, pursuant to applicable law, to ensure that its ratepayers are protected from affiliate transactions that may be adverse to the ratepayers' interests. The Indenture imposes no limitations on NRG's ability to pay dividends or to make other payments to NSP or on NRG's ability to enter into transactions with NSP or other affiliates of NRG.

OPERATING AGREEMENTS

NRG has two agreements with NSP for the purchase of thermal energy. Under the terms of the agreements, NSP charges NRG for certain incremental costs

(fuel, labor, plant maintenance and auxiliary power) incurred by NSP to produce the thermal energy. NRG paid NSP $6 million in 1996, $3.7 million in 1995 and $6.6 million in 1994 under these agreements; NRG has paid $2.2 million under them in the first six months of 1997.

NRG has a renewable 10-year agreement with NSP, expiring on December 31, 2001, whereby NSP agrees to purchase RDF for use in certain of its boilers and NRG agrees to pay NSP an incentive fee to use RDF. Under this agreement, NRG received $1.9 million and $1.7 million from NSP and paid $2.3 million and $2.2 million to NSP in 1995 and 1994, respectively. In 1996, NRG received $1.5 million and paid $2.2 million. In the first six months of 1997, NRG received $1.3 million and paid $1.3 million.

As of January 1, 1996, NRG entered into an operation and maintenance agreement with NSP with respect to the Elk River Facilities, under which NRG receives a base management fee and is reimbursed for costs it has incurred. The operation and maintenance agreement also provides for a management incentive fee payable to NRG, based upon the financial performance of the Elk River Facilities. In 1996 NRG earned a total management fee of $1.5 million, in addition to reimbursed expenses. Management fees for the six months ended June 30, 1997, totalled $633,000 compared to $508,000 for the same period in 1996.

ADMINISTRATIVE SERVICES AGREEMENT

NRG and NSP have entered into an agreement to provide for the reimbursement of actual administrative services provided to each other, an allocation of NSP administrative costs and a working capital fee. Services provided by NSP to NRG are principally for cash management, accounting, employee relations and engineering. In addition, NRG employees participate in certain employee benefit plans of NSP. Also, in 1993 NSP employees assisted in operating certain NRG facilities for which NRG reimbursed NSP for gross wages plus an amount to cover employee benefits. During 1995 and 1994, NRG paid NSP $6.8 million and $6.2 million, respectively, as reimbursement for the cost of services provided. In 1996, NRG paid $7.2 million and in the first six months of 1997, NRG paid $4.7 million for these services. Allocation is on a direct charge, actual cost basis where possible. When this is not possible, an allocation is made based upon employee headcounts, operating revenues and investment in fixed assets. Management believes that "allocated" costs approximate expenses that would be incurred on a stand alone basis.

TAX SHARING AGREEMENT

NRG is included in the consolidated federal income tax and state franchise tax returns of NSP. NRG calculates its tax position on a separate company basis under a tax sharing agreement with NSP and receives payment from NSP for tax benefits and pays NSP for tax liabilities.

LONG-TERM DEBT

The construction cost of the Newport facility was financed through tax exempt variable rate resource recovery revenue bonds issued by the Counties, which have subsequently been converted to fixed rate resource recovery revenue bonds with an effective interest rate of 6.57% per annum and annual maturities each December through 2006. The proceeds of such bond issuance were loaned by the counties to NSP, which agreed under a loan agreement to pay to the counties amounts sufficient to pay debt service on the bonds. NRG issued a separate note to NSP in an original principal amount of approximately $10 million as part of the consideration for the purchase of the facility from NSP.

CERTAIN INDEBTEDNESS

NRG has funded investments and intends to fund future investments from certain outside sources, including those described below.

1996 SENIOR NOTES

On January 29, 1996, NRG issued the 1996 Senior Notes in a transaction exempt from registration under the Securities Act. The 1996 Senior Notes were issued to fund some or all of NRG's equity investments in Schkopau and Latin Power, to pay a portion of the consideration for NRG's acquisition of interests in Collinsville and in O'Brien (for reorganization as NRGG), to make equity investments in Kladno and West Java, and for general corporate purposes, including investments in new projects. The 1996 Senior Notes are senior unsecured obligations of NRG and rank pari passu with all other senior unsecured indebtedness of NRG, including the Notes. The 1996 Senior Notes were assigned ratings of BBB-by S&P's Rating Group and Baa3 by Moody's. Redemption of the 1996 Senior Notes is not permitted prior to February 1, 2001. However, upon a change of control of NRG, each holder of the 1996 Senior Notes will have the right to require NRG to repurchase such holder's 1996 Senior Notes. Pursuant to the Indenture (the "1996 Indenture") under which the 1996 Senior Notes were issued, NRG is restricted from creating liens on its assets, is prohibited from merging except under certain circumstances and must maintain a specified minimum net worth. Failure to comply with these restrictive covenants could result in an event of default under the Indenture. Other events of default include nonpayment of principal or interest, certain cross-defaults, judgment decrees aggregating over $20 million and certain events of bankruptcy.

REVOLVER

NRG has entered into a $175 million revolving credit facility with a syndicate of banks led by ABN AMRO, which matures on March 17, 2000. Proceeds from the facility will be used for general corporate purposes, including letters of credit and interim funding for NRG project investments.

The facility allows for LIBOR and Base rate borrowing depending upon the days notice required and the term of drawing. The applicable margin is based upon the rate option selected and the assigned ratings of NRG. Pursuant to the terms of the agreement, NRG is restricted from creating liens on its assets, is prohibited from merging except under certain circumstances and must maintain a specified minimum net worth. Failure to comply with these restrictive covenants could result in an event of default. Other events of default include nonpayment of principal or interest, NSP's failure to own majority of outstanding voting stock of NRG, certain cross-defaults, and certain events of bankruptcy.

MASTER SHELF AGREEMENT

NRG Energy Center expects to enter into a master shelf agreement during October 1997, pursuant to which NRG Energy Center may issue $30 million in term notes with maturities no later than June 2017. The master shelf revolving credit facility could also provide for up to $5 million of short-term borrowings. The facility is expected to be recourse only to NRG Energy Center and is intended to provide financing for MEC.

DESCRIPTION OF NOTES

GENERAL

The Old Notes were issued, and the New Notes will be issued, under an Indenture, dated as of June 1, 1997 (the "Indenture"), between NRG and Norwest Bank Minnesota, National Association, as trustee (the "Trustee"). The

following summaries of the material provisions of the Notes and the Indenture do not purport to be complete and are subject, and qualified in their entirety by reference, to all of the provisions of the Notes and the Indenture, including the definitions of certain terms therein. The definitions of certain capitalized terms used in the following summary are set forth below under " -- Certain Definitions." As used in this section, unless otherwise indicated, "NRG" refers solely to NRG Energy, Inc. and does not include any of its subsidiaries or affiliates.

The Notes are senior unsecured obligations of NRG, which conducts substantially all of its business through numerous subsidiaries and affiliates. As a result, all existing and future liabilities of the direct and indirect subsidiaries and affiliates of NRG will be effectively senior to the Notes. The Notes will not be guaranteed by, or otherwise be obligations of, NRG's project subsidiaries and project affiliates, NRG's other direct and indirect subsidiaries and affiliates or NSP.

PRINCIPAL, MATURITY AND INTEREST

The Notes are limited in aggregate principal amount to $250,000,000 and will mature on June 15, 2007. Interest is payable on the Notes semiannually on June 15 and December 15 of each year, commencing December 15, 1997, until the principal is paid or made available for payment. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment of principal of the Notes will be made against surrender of such Notes at the office or agency of the Trustee in the Borough of Manhattan, The City of New York. Payment of interest on the Notes will be made to the person in whose name such Notes are registered at the close of business on the June 1 or December 1 immediately preceding the relevant interest payment date. For so long as the Notes are issued in book-entry form, payments of principal and interest shall be made in immediately available funds by wire transfer to DTC or its nominee. If the Notes are issued in certificated form to a Holder (as defined below) other than DTC, payments of principal and interest shall be made by check mailed to such Holder at such Holder's registered address or, upon written application by a Holder of $1,000,000 or more in aggregate principal amount of Notes to the Trustee in accordance with the terms of the Indenture, by wire transfer of immediately available funds to an account maintained by such Holder with a bank. Defaulted interest will be paid in the same manner to Holders as of a special record date established in accordance with the Indenture.

All amounts paid by NRG to the Trustee for the payment of principal of, premium, if any, or interest on any Notes that remain unclaimed at the end of two years after such payment has become due and payable will be repaid to NRG and the Holders of such Notes will thereafter look only to NRG for payment thereof.

OPTIONAL REDEMPTION

NRG at its option, at any time, may redeem the Notes, in whole or in part (if in part, by lot or by such other method as the Trustee shall deem fair or appropriate) at the redemption price of 100% of principal amount of such Notes, plus accrued interest on the principal amount of such Notes, if any, to the redemption date, plus the applicable Make-Whole Premium.

To determine the applicable Make-Whole Premium for any Note, an independent investment banking institution of national standing selected by NRG (the "Investment Banker") will compute, as of the third Business Day prior to the redemption date, the sum of the present values of all of the remaining scheduled payments of principal and interest from the redemption date to maturity on such Note

computed on a semiannual basis by discounting such payments (assuming a 360-day year consisting of twelve 30-day months) using a rate equal to the Treasury Rate plus 25 basis points. If the sum of these present values of the remaining payments as computed above exceeds the aggregate unpaid principal amount of the Note to be redeemed plus any accrued but unpaid interest thereon, the difference will be payable as a premium upon redemption of such Note. If the sum is equal to or less than such principal amount plus accrued interest, there will be no premium payable with respect to such Note.

CERTAIN COVENANTS

RESTRICTIONS ON LIENS

So long as any of the Notes are outstanding, NRG has agreed not to pledge, mortgage, hypothecate or permit to exist any mortgage, pledge or other lien upon any property at any time directly owned by NRG to secure any indebtedness for money borrowed which is incurred, issued, assumed or guaranteed by NRG ("Indebtedness"), without making effective provisions whereby the Notes shall be equally and ratably secured with any and all such Indebtedness and with any other Indebtedness similarly entitled to be equally and ratably secured; provided, however, that this restriction shall not apply to or prevent the creation or existence of: (i) liens existing at the original date of issuance of the Notes; (ii) purchase money liens which do not exceed the cost or value of the purchased property; (iii) other liens not to exceed 10% of Consolidated Net Tangible Assets and (iv) liens granted in connection with extending, renewing, replacing or refinancing in whole or in part the Indebtedness (including, without limitation, increasing the principal amount of such Indebtedness) secured by liens described in the foregoing clauses (i) through (iii).

In the event that NRG shall propose to pledge, mortgage or hypothecate any property at any time directly owned by it to secure any Indebtedness, other than as permitted by clauses (i) through (iv) of the previous paragraph, NRG has agreed to give prior written notice thereof to the Trustee, who shall give notice to the Holders, and NRG has agreed, prior to or simultaneously with such pledge, mortgage or hypothecation, effectively to secure all the Notes equally and ratably with such Indebtedness.

The foregoing covenant does not restrict the ability of NRG's subsidiaries and affiliates to pledge, mortgage, hypothecate or permit to exist any mortgage, pledge or lien upon their assets, in connection with project financings or otherwise.

CONSOLIDATION, MERGER, SALE OF ASSETS

Without the consent of any Holder, NRG may consolidate with or merge into any other person, or convey, transfer or lease its properties and assets substantially as an entirety to any person, or permit any person to merge into or consolidate with NRG, if (i) NRG is the surviving or continuing corporation or the surviving or continuing corporation or purchaser or lessee is a corporation incorporated under the laws of the United States of America or Canada and assumes NRG's obligations under the Notes and under the Indenture and (ii) immediately before and after such transaction, no Event of Default (as defined herein) shall have occurred and be continuing.

Except for a sale of the assets of NRG substantially as an entirety as provided above, and other than assets required to be sold to conform with governmental regulations, the Indenture provides that NRG may not sell or otherwise dispose of any assets (other than short-term, readily marketable investments purchased for cash management purposes with funds not representing the proceeds of other asset sales) if on a pro forma basis, the aggregate net book value of all such sales during the most recent 12-month period would exceed 10% of Consolidated Net Tangible Assets computed as of the end of the most recent quarter preceding such sale; provided, however, that any such sales shall be disregarded for purposes of this 10% limitation if the proceeds are invested in assets in similar or related lines of business of NRG and, provided further, that NRG may sell or otherwise dispose of assets in excess of such 10% if the proceeds from such sales or

dispositions, which are not reinvested as provided above, are retained by NRG as cash or cash equivalents or are used to purchase and retire Notes or 1996 Notes.

CHANGE OF CONTROL

Upon a Change of Control, each Holder shall have the right to require that NRG repurchase such Holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued interest, if any, to the date of repurchase. A Change of Control shall not be deemed to have occurred if, after giving effect thereto, the Notes are rated BBB-or better by Standard & Poor's Ratings Group and Baa3 or better by Moody's Investors Service, Inc.

The Change of Control provisions may not be waived by the Trustee or the Board of Directors, and any modification thereof must be approved by each Holder. Nevertheless, the Change of Control provisions will not only afford protection to holders of Notes, including protection against an adverse effect on the value of the Notes, in the event that NRG or its subsidiaries and affiliates incur additional Indebtedness, whether through recapitalizations or otherwise. Moreover, no assurance can be given that NRG would have sufficient liquidity to effectuate any required repurchase of Notes upon a Change of Control.

Within 30 days following any Change of Control, NRG will be required to mail a notice to each Holder (with a copy to the Trustee) stating (1) that a Change of Control has occurred and that such Holder has the right to require NRG to repurchase such Holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued interest, if any, to the date of repurchase (the "Change of Control Offer"); (2) the circumstances and relevant facts regarding such Change of Control (including information with respect to pro forma historical income, cash flow and capitalization after giving effect to such Change of Control); (3) the repurchase date (which shall be a Business Day and be not earlier than 30 days or later than 60 days from the date such notice is mailed (the "Repurchase Date"); (4) that interest on any Senior Note tendered will continue to accrue; (5) that interest on any Senior Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue after the Repurchase Date; (6) that Holders electing to have a Senior Note purchased pursuant to a Change of Control Offer will be required to surrender the Senior Note, with the form entitled "Option to Elect Purchase" on the reverse of the Senior Note completed, to the Trustee at the address specified in the notice prior to the close of business on the Repurchase Date; (7) that Holders will be entitled to withdraw their election if the Trustee receives, not later than the close of business on the third Business Day (or such shorter periods as may be required by applicable law) preceding the Repurchase Date, a telegram, telex, facsimile or letter setting forth the name of the Holder, the principal amount of Notes the Holder delivered for purchase and a statement that such Holder is withdrawing its election to have such Notes purchased; and (8) that Holders that elect to have their Notes purchased only in part will be issued new Notes in a principal amount equal to the unpurchased portion of the Notes surrendered.

For so long as the Notes are in global form, upon a Change of Control NRG will be required to deliver to DTC, for re-transmittal to its participants, a notice substantially to the effect specified in clauses (1) through (5) and (7) of the previous paragraph. Such notice shall also specify the required procedures for holders of interests in the Global Notes to tender the Notes (including the DTC Repayment Option Procedures to the extent applicable).

On the Repurchase Date, NRG shall (i) accept for payment such surrendered Notes or portions thereof tendered pursuant to the Change of Control and (ii) deposit with the Trustee money sufficient to pay the purchase price of all Notes or portions thereof so tendered. NRG will publicly announce the result of the Change of Control Offer as soon as practicable after the Repurchase Date.

NRG has agreed to comply with all applicable tender offer rules, including, without limitation, Rule 14e-1 under the Exchange Act in connection with a Change of Control Offer.

REPORTING OBLIGATIONS

NRG has agreed to furnish or cause to be furnished to Holders (and, at the request thereof, beneficial holders of Notes) annual consolidated financial statements of NRG prepared in accordance with GAAP (together with notes thereto, a report thereon by an independent accountant of established national reputation and a management's discussion and analysis of financial condition and results of operations). In addition, NRG will furnish or cause to be furnished to Holders (and, at the request thereof,

beneficial holders of Notes) unaudited condensed consolidated comparative balance sheets and statements of income and cash flows of NRG for each of the first three fiscal quarters of each fiscal year and the corresponding quarter of the prior year, such statements to be furnished within 90 days after the end of the fiscal quarter covered thereby.

CERTAIN DEFINITIONS

"Business Day" means a day which is neither a legal holiday or a day on which banking institutions (including, without limitation, the Federal Reserve System) are authorized or required by law or regulation to close in The City of New York or Minneapolis, Minnesota.

"Change of Control" means the occurrence of one or more of the following events: (a) NSP (or its successors) ceases to own a majority of NRG's outstanding voting stock, (b) at any time following the occurrence of the event described in clause (a) above, a person or group of persons (other than NSP) becomes the beneficial owner, directly or indirectly, or has the absolute power to direct the vote of more than 35% of NRG's voting stock or (c) during any one year period, individuals who at the beginning of such period constitute NRG's Board of Directors cease to be a majority of the Board of Directors (unless approved by a majority of the current directors then in office who were either directors at the beginning of such period or who were previously so approved). A Change of Control shall be deemed not to have occurred if, following such an event described above, the Notes are rated BBB-or better by Standard & Poor's Ratings Group and Baa3 or better by Moody's Investors Service, Inc.

"Consolidated Net Tangible Assets" means, as of the date of any determination thereof, the total amount of all assets of NRG determined on a consolidated basis in accordance with GAAP as of such date less the sum of (a) the consolidated current liabilities of NRG determined in accordance with GAAP and (b) assets properly classified as Intangible Assets.

"Holder" means a registered holder of a Senior Note.

"Intangible Assets" means, as of the date of any determination thereof, with respect to any person, all assets properly classified as intangible assets in accordance with GAAP.

"Treasury Rate" means, with respect to each Note to be redeemed, a per annum rate (expressed as a semiannual equivalent and as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined by the Investment Banker to be the per annum rate equal to the semiannual yield to maturity of United States Treasury securities maturing on the Average Life Date (as defined below) of such Note, as determined by interpolation between the most recent weekly average yields to maturity for two series of Treasury securities, (A) one maturing as close as possible to, but earlier than, the Average Life Date of such Note and (B) the other maturing as close as possible to, but later than, the Average Life Date of such Note, in each case as published in the most recent H.15(519) (or, if a

weekly average yield to maturity for United States Treasury securities maturing on the Average Life Date of such Note is reported in the most recent H.15(519), as published in H.15(519)). "H.15(519)" means "Statistical Release H.15(519), Selected Interest Rates," or any successor publication, published by the Board of Governors of the Federal Reserve System. The "most recent H.15(519)" means the latest H.15(519) which is published prior to the close of business on the third Business Day prior to the applicable redemption date. The "Average Life Date" for any Note to be redeemed shall be the date which follows the redemption date by a period equal to the Remaining Weighted Average Life of such Note. The "Remaining Weighted Average Life" of such Note with respect to the redemption of such Note is the number of days equal to the quotient obtained by dividing (A) the sum of the products obtained by multiplying (1) the amount of each remaining principal payment on such Note by (2) the number of days from and including the redemption date, to but excluding the scheduled payment date of such principal payment by (B) the unpaid principal amount of such Note.

EVENTS OF DEFAULT

The following constitute Events of Default under the Notes:

(a) failure to pay any interest on any Senior Note when due, which failure continues for 30 days;

(b) failure to pay principal or premium (including in connection with a Change of Control) when due;

(c) failure of NRG to perform any other covenant in the Notes or the Indenture for a period of 30 days after written notice to NRG by the Trustee or by the Holders of at least 25% in aggregate principal amount of the Notes;

(d) an event of default occurring under any instrument of NRG under which there may be issued, or by which there may be secured or evidenced, any indebtedness for money borrowed that has resulted in the acceleration of such indebtedness, or any default occurring in payment of any such indebtedness at final maturity (and after the expiration of any applicable grace periods), other than (i) indebtedness which is payable solely out of the property or assets of a partnership, joint venture or similar entity of which NRG or any of its subsidiaries or affiliates is a participant, or which is secured by a lien on the property or assets owned or held by such entity, without further recourse to NRG or (ii) such indebtedness of NRG not exceeding $20,000,000;

(e) one or more final judgments, decrees or orders of any court, tribunal, arbitrator, administrative or other governmental body or similar entity for the payment of money aggregating more than $20,000,000 shall be rendered against NRG (excluding the amount thereof covered by insurance) and shall remain undischarged, unvacated and unstayed for more than 90 days, except while being contested in good faith by appropriate proceedings; and

(f) certain events of bankruptcy, insolvency or reorganization in respect of NRG.

The Indenture provides that if an Event of Default (other than an Event of Default based on an event of bankruptcy, insolvency or reorganization of NRG) shall occur and be continuing, either the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes may, by written notice to NRG (and to the Trustee if given by Holders), declare the principal of all Notes to be immediately due and payable, but upon certain conditions such declaration may be annulled and past defaults (except, unless theretofore cured, a default in payment of principal, premium or interest) may be waived by the Holders of a majority in aggregate principal amount of Notes then outstanding. Notwithstanding the foregoing, any Holder shall have the right

to institute suit to enforcement of any overdue payment owing to such Holder pursuant to the Notes. If an Event of Default due to the bankruptcy, insolvency or reorganization of NRG occurs, all unpaid principal, premium, if any, and interest in respect of the Notes will automatically become due and payable. Pursuant to the Indenture NRG is required to provide an annual statement of compliance with the terms of the Indenture.

The Holders of a majority in principal amount of the Notes then outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee under the Indenture, provided that the Holders shall have offered to the Trustee reasonable indemnity against expenses and liabilities. Notwithstanding the foregoing, the Trustee shall have the right to decline to follow any such direction if the Trustee and its counsel shall determine that the action requested is unlawful, would involve the Trustee in personal liability or will be unduly prejudicial to the interests of Holders not joining in the giving of such direction.

MODIFICATION OF THE INDENTURE

The Indenture contains provisions permitting NRG and the Trustee, with the consent of the Holders of not less than a majority in principal amount of the Notes then outstanding, to modify the Indenture or the rights of the Holders, except that no such modification may, without the consent of each Holder, (i) extend the final maturity of any of the Notes or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any amount payable on redemption thereof, or impair or affect the right of any Holder to institute suit for the payment thereof or make any change in the covenant regarding a Change of Control or (ii) reduce the percentage of Notes, the consent of the Holders of which is required for any such modification.

NRG and the Trustee without the consent of any Holder may amend the Indenture and the Notes for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision

thereof, or in any manner which NRG and the Trustee may determine is not inconsistent with the Notes and will not adversely affect the interest of any Holder.

DEFEASANCE AND COVENANT DEFEASANCE

DEFEASANCE

The Indenture provides that NRG will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes, on the 123rd day after the deposit referred to below has been made, and the provisions of the Indenture will cease to be applicable with respect to the Notes (except for, among other matters, certain obligations to register the transfer of or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold funds for payment in trust) if (A) NRG has deposited with the Trustee, in trust, money and/or U.S. Government Obligations (as defined in the Indenture) that, through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes, at the time such payments are due in accordance with the terms of the Indenture, (B) NRG has delivered to the Trustee (i) an opinion of counsel to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of NRG's exercise of its option under the defeasance provisions of the Indenture and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred, which opinion of counsel must be based upon a ruling of the Internal Revenue Service to the same effect or a change in applicable federal income tax law or related treasury regulations

after the date of the Indenture and (ii) an opinion of counsel to the effect that the defeasance trust does not constitute an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the U.S. Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law, (C) immediately after giving effect to such deposit, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 123rd day after the date of such deposit, and such deposit shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which NRG is a party or by which NRG is bound and (D) if at such time the Notes are listed on a national securities exchange, NRG has delivered to the Trustee an opinion of counsel to the effect that the Notes will not be delisted as a result of such deposit and discharge.

DEFEASANCE OF CERTAIN COVENANTS AND CERTAIN EVENTS OF DEFAULT

The Indenture further provides that the provisions of the Indenture will cease to be applicable with respect to (i) the covenants described under "Certain Covenants -- Restrictions on Liens" and "Change of Control" and (ii) clause (c) under "Events of Default" with respect to such covenants and clauses (d) and (e) under "--Events of Default" upon the deposit with the Trustee, in trust, of money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes, the satisfaction of the conditions described in clauses (B)(ii), (C) and (D) of the preceding paragraph and the delivery by NRG to the Trustee of an opinion of counsel to the effect that, among other things, the Holders of the Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

DEFEASANCE AND CERTAIN OTHER EVENTS OF DEFAULT

If NRG exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable,

the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their stated maturity, but may not be sufficient to pay amounts due on the Notes at the time of acceleration resulting from such Event of Default. NRG shall remain liable for such payments.

FORM, DENOMINATION, BOOK-ENTRY PROCEDURES AND TRANSFER

The Old Notes were initially represented by two Notes in registered, global form (collectively, the "Old Global Notes"). The Old Global Notes were deposited upon issuance with the Trustee as custodian for DTC and registered in the name of Cede & Co., DTC's nominee, for credit to any account of a direct or indirect participant in DTC as described below.

Except as set forth below, the Global Notes may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Senior Notes in certificated forms except in the limited circumstances described under "--Exchange of Book-Entry Notes for Certificated Notes" below.

DEPOSITARY PROCEDURES

DTC has advised NRG that DTC is a limited-purpose trust company created to hold securities for its Participants and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of the Participants. The Participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interest and transfer of ownership interest of each actual purchase of each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised NRG that, pursuant to procedures established by it, (i) upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Global Notes and (ii) ownership of such interests in the Global Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes may hold their interests therein directly through DTC if they are Participants in such system, or indirectly through organizations which are Participants in such system. All interests in a Global Note may be subject to the procedures and requirements of DTC. The laws of some states require that certain persons take physical delivery in certificated form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants and certain banks, the ability of a person having beneficial interests in a Global Note to pledge such interest to persons that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the Notes, see "--Exchange of Book-Entry Notes for Certificated Notes" below.

Except as described below, owners of interests in the Global Notes will not have Notes registered in their name, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners of holders thereof under the Indenture for any purpose.

Payments in respect of the Global Note registered in the name of DTC or its nominee will be payable by the Trustee to DTC in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Trustee will treat the persons in whose names the Notes, including the Global Notes,

are registered as the owners thereof for the purpose of receiving such payments and for any and all purposes whatsoever. Consequently, neither the Trustee nor any agent thereof has or will have any responsibility or liability for (i) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Global Note or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Note or (ii) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants. DTC has advised NRG that its current practice, upon receipt of any payment in respect of securities such as the Notes, is to credit the accounts of the relevant Participants with the payment on the payment date, in amounts proportionate to their respective holdings in principal amount of beneficial interests in

the relevant security as shown on the records of DTC unless DTC has reason to believe it will not receive payment on such payment date. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or NRG. Neither NRG nor the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the Notes, and NRG and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

DTC has advised NRG that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Declaration, DTC reserves the right to exchange the Global Notes for Notes in certificated form and to distribute such Notes to its Participants.

The information in this section concerning DTC and its book-entry system has been obtained from sources that NRG believes to be reliable, but NRG has not independently determined the accuracy thereof. NRG will not have any responsibility for the performance by DTC or its Participants of their respective obligations under the rules and procedures governing their operations.

EXCHANGE OF BOOK-ENTRY NOTES FOR CERTIFICATED NOTES

A Global Note is exchangeable for Notes in registered certificated form if (i) DTC notifies NRG that it is unwilling or unable to continue as clearing agency for the Global Note or has ceased to be a clearing agency registered under the Exchange Act and NRG thereupon fails to appoint a successor clearing agency within 90 days, (ii) NRG in its sole discretion elects to cause the issuance of definitive certificated Notes or (iii) there has occurred and is continuing an Event of Default or any event which after notice or lapse of time or both would be an Event of Default under the Indenture. In addition, beneficial interests in a Global Note may be exchanged for certificated Notes upon request but only upon at least 20 days, prior written notice given to the Trustee by or on behalf of DTC in accordance with customary procedures. In all cases certificated Notes delivered in exchange for any Global Note or beneficial interest therein will be registered in the names, and issued in denominations of $100,000 and integral multiples of $1,000 in excess thereof, requested by or on behalf of the clearing agency (in accordance with its customary procedures).

THE TRUSTEE

Norwest Bank Minnesota, National Association is the Trustee under the Indenture. NRG and its affiliates also maintain banking and other commercial relationships with the Trustee and its affiliates in the ordinary course of business.

GOVERNING LAW

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

REGISTRATION RIGHTS

Holders of New Notes (other than as set forth below) are not entitled to any registration rights with respect to the New Notes. Pursuant to the Registration Rights Agreement, Holders of Old Notes are entitled to certain registration rights. Under the Registration Rights Agreement, NRG has agreed,

for the benefit of the Holders of the Old Notes, that it will, at its cost, (i) file a registration statement with the Commission with respect to the Exchange Offer within 60 days after the Closing Date (or if the 60th day is not a business day, the first business day thereafter) and (ii) use its best efforts to cause such registration statement to be declared effective under the Securities Act within 180 days after the Closing Date (or if the 180th day is not a business day, the first business day thereafter). The Registration Statement of which this Prospectus is a part constitutes the Exchange Offer Registration Statement.

In the event that any Holder shall notify NRG that (A) such Holder is not eligible to participate in the Exchange Offer or (B) such Holder may not resell the New Notes acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by such Holder or (C) such Holder is a broker-dealer and holds Old Notes that are part of an unsold allotment from the original sale of the Old Notes, NRG will file with the Commission a shelf registration statement (the "Shelf Registration Statement") to cover resales of Transfer Restricted Securities by such Holders who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. NRG will use its best efforts to cause the Shelf Registration Statement, if applicable, to be declared effective on or prior to 215 days after the date on which NRG becomes obligated to file the Shelf Registration Statement or receives certain notices from holders of the Old Notes and will use its best efforts to keep the Shelf Registration Statement continuously effective until the earlier of (i) two years after the effective date thereof, (ii) the date on which all Transfer Restricted Securities registered thereunder are disposed of in accordance therewith and (iii) one year after the effective date thereof if such Shelf Registration Statement is filed at the request of an Initial Purchaser. For purposes of the foregoing, "Transfer Restricted Securities" means each Old Note until the earliest to occur of (i) the date on which such Old Note has been exchanged for a New Note in the Exchange Offer, (ii) the date on which such Old Note has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (iii) the date on which such Old Note is distributed to the public pursuant to Rule 144 under the Securities Act.

A Holder of Old Notes who sells such Old Notes pursuant to the Shelf Registration Statement generally would be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the Registration Rights Agreement that are applicable to such a Holder (including certain indemnification obligations).

The summary herein of certain provisions of the Registration Rights Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Rights Agreement, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part.

SPECIAL INTEREST

In the event that either the Exchange Offer is not consummated or a Shelf Registration Statement with respect to any Transfer Restricted Securities is not declared effective on or prior to the 215th day following the date of original issuance of any Transfer Restricted Securities (or if the 215th day is not a business day, the first business day thereafter), interest will accrue (in addition to stated interest on the Securities) from and including the next day following such 215-day period. In each case such additional interest (the "Special Interest") will be payable in cash semiannually in arrears each June 15, and December 15, commencing December 15, 1997, at a rate per annum equal to 0.25% of the principal amount of such Transfer Restricted Securities. The aggregate amount of Special Interest payable pursuant to the above provisions will in no event exceed 0.25% per annum of the principal amount of any Transfer Restricted Securities. Upon the consummation of the Exchange Offer or the effectiveness of a Shelf

Registration Statement, after the 215-day period described above, the Special Interest payable on

such Transfer Restricted Securities from the date of such effectiveness or consummation, as the case may be, will cease to accrue and all accrued and unpaid Special Interest shall be paid to the holders of such Transfer Restricted Securities.

In the event that a Shelf Registration Statement is declared effective pursuant to the preceding paragraph, if the Company fails to keep such Registration Statement continuously effective for the period required by this Agreement, then from such time as the Shelf Registration Statement is no longer effective until the earlier of (i) the date that the Shelf Registration Statement is again deemed effective, (ii) the date that is the second anniversary of the Closing Date or (iii) the date as of which all of the Securities are sold pursuant to the Shelf Registration Statement, Special Interest shall accrue at a rate per annum equal to 0.25% of the principal amount of the Securities and shall be payable in cash semiannually in arrears each June 15 and December 15, commencing December 15, 1997.

The filing and effectiveness of the Registration Statement of which this Prospectus is a part and the consummation of the Exchange Offer will eliminate all rights of the Holders of Old Notes eligible to participate in the Exchange Offer to receive Special Interest that would have been payable if such actions had not occurred.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a discussion of certain United States Federal income tax considerations associated with the exchange of Old Notes for New Notes and the ownership and disposition of the New Notes by Holders who acquire the New Notes pursuant to the Exchange Offer. This discussion is based upon existing United States Federal income tax law, which is subject to change, possibly retroactively. This discussion does not describe all aspects of United States Federal income taxation which may be important to particular Holders in light of their individual investment circumstances or certain types of Holders subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, or tax-exempt organizations) or to persons that hold or will hold the Notes as a position in a "straddle" or as part of a "hedging" or "conversion" transaction, all of whom may be subject to tax rules that differ significantly from those described below. In addition, this discussion does not described any foreign, state, or local tax considerations. This discussion deals only with Old Notes and New Notes held by initial purchasers of Old Notes as "capital assets" (generally, property held for investment) under the United States Internal Revenue Code.

The consummation of the Exchange Offer will not be a taxable event for United States Federal income tax purposes. Accordingly, a Holder receiving New Notes pursuant to the terms of the Exchange Offer will have the same adjusted tax basis and holding period in New Notes, for United States Federal income tax purposes, as such Holder had in the Old Notes tendered in exchange therefor.

Interest payable on the New Notes will be includible in the income of a Holder in accordance with such Holder's normal method of accounting.

Except in the case of an Old Note purchased at a discount to its original issue price, a Holder will recognize capital gain or loss upon the sale or other disposition of a New Note in an amount equal to the difference between the amount realized from such disposition and his tax basis in the New Note. Such gain or loss will be long-term if the New Note is held for more than one year.

In the case of a Holder who has purchased a New Note at a discount to its

original issue price in excess of a statutorily defined de minimis amount and has not elected to include such discount in income on a current basis, (i) any gain recognized on the disposition of a New Note will be subject to tax as ordinary income, rather than capital gain, to the extent of accrued market discount and (ii) a portion of the interest expense on indebtedness incurred or maintained to purchase or carry such note may not be deducted until the note is disposed of in a taxable transaction.

PROSPECTIVE HOLDERS OF THE NEW NOTES ARE URGED TO CONSULT THEIR TAXADVISORS CONCERNING THE PARTICULAR TAX CONSEQUENCES OF EXCHANGING SUCH HOLDER'S OLD NOTES FOR THE NEW NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN INCOME AND OTHER TAX LAWS.

RATINGS

Standard & Poor's Ratings Group and Moody's Investors Service, Inc. have given the Old Notes the ratings set forth under "Summary -- Summary Description of the New Notes." NRG expects that the New Notes would be assigned the same ratings as the Old Notes. Such ratings reflect only the views of these organizations, and an explanation of the significance of each such rating may be obtained from Standard & Poor's Corporation, 25 Broadway, New York, New York 10004 and Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies or either of them if, in their judgment, circumstances so warrant. A downward change in or withdrawal of such ratings or either of them may have an adverse effect on the market price of the Notes.

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. This Prospectus as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with the resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. NRG has agreed that, starting on the Expiration Date and ending on the close of business on the 90th day following the Expiration Date, it will make this Prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until , 1997 (90 days from the date of this Prospectus), all dealers effecting transactions in the New Notes may be required to deliver a prospectus.

NRG will not receive any proceeds from any sale of New Notes by broker-dealers or any other persons. New Notes received by broker-dealers for their own account pursuant to the Exchange Offer may be sold form time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or purchasers of any such New Notes. Any broker-dealer that resells New Notes that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such New Notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of New Notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that by

acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 90 days after the Expiration Date, NRG will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. NRG has agreed to pay all expenses incident to NRG's performance of, or compliance with, the Registration Rights Agreement and will indemnify the Holders (including any broker-dealers) and certain parties related to the Holders against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

Certain legal matters with respect to the validity of the New Notes will be passed upon for NRG by Skadden, Arps, Slate, Meagher & Flom LLP.

EXPERTS

The consolidated financial statements of NRG as of December 31, 1995 and 1996 and for each of the two years in the period ended December 31, 1996 included in this Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of NRG as of December 31, 1994 included in this Prospectus have been so included in reliance on the report of Deloitte & Touche LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Sunshine State Power BV and Sunshine State Power (No. 2) BV as of December 31, 1996, 1995 and 1994 and for each of the three years in the period ended December 31, 1996 included in this Prospectus have been so included in reliance on the reports of Price Waterhouse Netherland BV, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The balance sheets as of December 31, 1995 and 1994 of San Joaquin Valley Energy Partners I, L.P. (the Partnership), and the statements of income, partners' equity and cash flows for each of the two years in the period ended December 31, 1995, included in this Prospectus, have been included herein in reliance on the report of Coopers & Lybrand L.L.P., independent accountants, which report includes an explanatory paragraph disclosing that the Partnership entered into an agreement during 1995 whereby the Partnership's power purchase contracts were transferred back to Pacific Gas & Electric, given on the authority of that firm as experts in accounting and auditing.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Shareholders
NRG Energy, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholder's equity, and of cash flows present fairly, in all material respects, the financial position of NRG Energy, Inc. (a wholly-owned subsidiary of Northern States Power Company) and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of NRG's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP
Minneapolis, Minnesota
April 8, 1997

NRG ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 12,438	$ 7,039
Restricted cash	17,688	9,773
Accounts receivable--trade, less allowance for doubtful accounts of $143 and $103	12,061	9,333
Accounts receivable-affiliates	6,708	4,640
Current portion of notes receivable-affiliates	3,601	5,267
Current portion of notes receivable	5,985	2,791
Inventory	2,312	1,811
Prepayments and other current assets	4,644	1,744
TOTAL CURRENT ASSETS	65,437	42,398
Property, Plant and Equipment, at Original Cost:		
In service	176,072	170,253
Under construction	24,683	5,914
	200,755	176,167
Less accumulated depreciation	(71,106)	(64,248)
Net property, plant and equipment	129,649	111,919
Other Assets:		
Investments in projects	365,749	221,129
Capitalized project costs	9,267	4,185
Notes receivable, less current portion-affiliates	58,169	32,389
Notes receivable, less current portion	9,309	--
Intangible assets, net of accumulated amortization of $5,647 and $4,127	40,476	41,996
Debt issuance costs, net of accumulated amortization of $338 and $189	2,753	573
Total other assets	485,723	300,272
TOTAL ASSETS	$680,809	$454,589

See accompanying notes

	DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 4,848	$ 3,762
Accounts payable-trade	4,443	6,208
Note payable-affiliates	3,867	1,185
Accrued income taxes	1,930	7,366
Accrued property and sales taxes	2,159	1,895
Accrued salaries, benefits and related costs	6,559	5,178
Accrued interest	4,726	824
Other current liabilities	4,424	1,578
TOTAL CURRENT LIABILITIES	32,956	27,996

Long-term debt, less current portion	207,293	86,272
Deferred revenues	6,340	7,726
Deferred income taxes	8,606	9,166
Deferred investment tax credits	1,853	2,069
Deferred compensation	1,847	1,596
TOTAL LIABILITIES	258,895	134,825
Commitments and Contingencies (Note 13)		
Stockholder's Equity:		
Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	351,013	271,013
Retained earnings	66,301	46,323
Currency translation adjustments	4,599	2,427
TOTAL STOCKHOLDER'S EQUITY	421,914	319,764
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$680,809	$454,589

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
Operating revenues:		
Revenues from wholly-owned operations	$ 71,649	$64,180
Equity in operating earnings of unconsolidated affiliates	32,815	23,639
Total operating revenues	104,464	87,819
Operating costs and expenses:		
Cost of wholly-owned operations	36,562	32,535
Depreciation and amortization	8,378	8,283
General, administrative and development expenses	39,248	34,647
Total operating costs and expenses	84,188	75,465
Operating income	20,276	12,354
Other income (expense):		
Equity in gain from project termination settlements	--	29,850
Other income, net	9,477	4,896
Interest expense	(15,430)	(7,089)
Total other income (expense)	(5,953)	27,657
Income before income taxes	14,323	40,011
Income (benefit) taxes	(5,655)	8,810
Net Income	$ 19,978	$31,201

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,	
	1996	1995
	(THOUSANDS OF DOLLARS)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 19,978	$ 31,201
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Undistributed equity in operating earnings of unconsolidated affiliates	(17,827)	(20,074)
Depreciation and amortization	8,378	8,283
Deferred income taxes and investment tax credits	(776)	(2,608)
Cash provided (used) by changes in certain working capital items		
Accounts receivable	(2,728)	1,102
Accounts receivable-affiliates	(2,068)	(2,889)
Accrued income taxes	(5,436)	9,808
Inventory	(501)	(107)
Prepayments and other current assets	(2,900)	(571)
Accounts payable-trade	(1,765)	1,009
Accounts payable-affiliates	2,682	(3,037)
Accrued property and sales taxes	264	(396)
Accrued salaried, benefits and related costs	1,381	2,427
Accrued interest	3,902	553
Other current liabilities	2,846	1,094
Cash (used) by changes in other assets and liabilities	(1,284)	(1,004)
Equity in gain from project termination settlement	--	(29,850)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,146	(5,059)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in projects	(140,590)	(25,776)
Loans to projects	(36,617)	(35,411)
Capital expenditures	(24,588)	(11,036)
Cash distribution from project termination settlement	15,671	14,179
(Increase) decrease in restricted cash	(7,915)	4,044
Other, net	(4,486)	(3,104)
NET CASH USED BY INVESTING ACTIVITIES	(198,525)	(57,104)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from parent	80,000	55,000
Proceeds from issuance of long-term debt	122,671	--
Principal payments on long-term debt	(2,893)	(3,305)
NET CASH PROVIDED BY FINANCING ACTIVITIES	199,778	51,695
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,399	(10,468)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,039	17,507
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,438	$ 7,039
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid (net of amount capitalized)	$ 11,527	$ 6,536
Income taxes paid	1,164	1,447

See accompanying notes.

NRG ENERGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CURRENCY TRANSLATION ADJUSTMENTS	TOTAL STOCKHOLDER'S EQUITY
	(THOUSANDS OF DOLLARS)				

Balances at December 31, 1994	$1	$216,013	$15,122	$ 3,586	$234,722
Net income.....			31,201		31,201
Capital contributions from parent.....		55,000			55,000
Currency translation adjustments .				(1,159)	(1,159)
Balances at December 31, 1995	1	271,013	46,323	2,427	319,764
Net income.....			19,978		19,978
Capital contributions from parent.....		80,000			80,000
Currency translation adjustments .				2,172	2,172
Balances at December 31, 1996	$1	$351,013	$66,301	$ 4,599	$421,914

See accompanying notes

NRG ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

NRG Energy, Inc., a Delaware corporation, was incorporated on May 29, 1992, as a wholly-owned subsidiary of Northern States Power Company (NSP). Beginning in 1989, NRG was doing business through its predecessor companies, NRG Energy, Inc. and NRG Group, Inc., Minnesota corporations which were merged into NRG subsequent to its incorporation. NRG and its subsidiaries and affiliates develop, build, acquire, own and operate nonregulated energy-related businesses.

2. PRINCIPLES OF CONSOLIDATION

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of NRG and its subsidiaries (referred to collectively herein as NRG). All significant intercompany transactions and balances have been eliminated in consolidation. As discussed in Note 5, NRG has investments in partnerships, joint ventures and projects for which the equity method of accounting is applied. Earnings from equity in international investments are recorded net of foreign income taxes.

Cash Equivalents

Cash equivalents include highly liquid investments (primarily commercial paper) with a remaining maturity of three months or less at the time of purchase.

Restricted Cash

Restricted cash consists primarily of cash collateral required in connection with foreign currency hedging activities (see Note 12) and cash collateral for letters of credit issued in relation to project development activities.

Inventory

Inventory is valued at the lower of average cost or market and consists principally of spare parts and raw materials used to generate steam.

Property, Plant and Equipment

Property, plant and equipment are capitalized at original cost. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Facilities and improvements.....	20-45 years
Machinery and equipment.....	7-30 years
Office furnishings and equipment	3- 5 years

Capitalized Interest

Interest incurred on funds borrowed to finance projects expected to require more than three months to complete is capitalized. Capitalization of interest is discontinued when the project is completed and considered operational. Capitalized interest is amortized using the straight line method over the useful life of the related project. Capitalized interest was $364,000 and $253,000 in 1996 and 1995, respectively.

Development Costs and Capitalized Project Costs

These costs include professional services, dedicated employee salaries, permits, and other costs which are incurred incidental to a particular project. Such costs are expensed as incurred until a sales

2. PRINCIPLES OF CONSOLIDATION (Continued)

agreement or letter of intent is signed and the project has been approved by NRG's Board of Directors. Additional costs incurred after this point are capitalized. When project operations begin, previously capitalized project costs are reclassified to investment in projects and amortized on a straight-line basis over the lesser of the life of the project's related assets or revenue contract period.

Debt Issuance Costs

Costs to issue long-term debt have been capitalized and are being amortized over the terms of the related debt.

Intangibles

Intangibles consist principally of service agreements and the excess of the cost of investment in subsidiaries over the underlying fair value of the net assets acquired and are being amortized using the straight-line method over 30 years. NRG periodically evaluates the recovery of goodwill and other intangibles based on an analysis of estimated undiscounted future cash flows.

Service agreement intangibles relate solely to the 1993 acquisition of the Minneapolis Energy Center. The 30-year amortization period is based on customer energy service agreements having a 20-year term, and that historically these customer agreements have largely been renewed for additional 20-year terms.

Income Taxes

NRG is included in the consolidated tax returns of NSP. NRG calculates its income tax provision on a separate return basis under a tax sharing agreement with NSP as discussed in Note 9. Current federal and state income taxes are payable to or receivable from NSP. NRG records income taxes using the

liability method. Income taxes are deferred on all temporary differences between pretax financial and taxable income and between the book and tax bases of assets and liabilities. Deferred taxes are recorded using the tax rates scheduled by law to be in effect when the temporary differences reverse. Investment tax credits are deferred and amortized over the estimated lives of the related property. NRG's policy for income taxes related to international operations is discussed in Note 9.

Revenue Recognition

Under fixed-price contracts, revenues are recognized as deliveries of products or services are made. Revenues and related costs under cost reimbursable contract provisions are recorded as costs are incurred. Anticipated future losses on contracts are charged against income when identified.

Deferred revenues relate to a 1988 legal settlement with a major thermal customer. Settlement proceeds were deferred when received and are reflected in operating income on a straight-line basis over the life of the related steam contract which expires in 2001.

Foreign Currency Translation

The local currencies are generally the functional currency of NRG's foreign operations. Foreign currency denominated assets and liabilities are translated at end-of-period rates of exchange. The resulting currency adjustments are accumulated and reported as a separate component of stockholder's equity. Income, expense and cash flows are translated at weighted-average rates of exchange for the period.

Exchange gains and losses that result from foreign currency transactions (e.g., converting cash distributions made in one currency to another currency) are included in the results of operations as a

2. PRINCIPLES OF CONSOLIDATION (Continued)

component of equity in earnings of unconsolidated affiliates. Through December 31, 1996, NRG has not experienced any material translation gains or losses from foreign currency transactions that have occurred since the respective foreign investment dates.

Derivative Financial Instruments

NRG's policy is to hedge foreign currency denominated investments as they are made to preserve their U.S. dollar value, where appropriate hedging vehicles are available. NRG has entered into currency hedging transactions through the use of forward foreign currency exchange agreements. Gains and losses on these agreements offset the effect of foreign currency exchange rate fluctuations on the valuation of the investments underlying the hedges. Hedging gains and losses, net of income tax effects, are reported with other currency translation adjustments as a separate component of stockholder's equity. NRG is not hedging currency translation adjustments related to future operating results. NRG does not speculate in foreign currencies. None of these derivative financial instruments are reflected in NRG's balance sheet.

Use of Estimates

In recording transactions and balances resulting from business operations, NRG uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, tax provisions, uncollectible accounts and actuarially determined benefit costs. As better information

becomes available (or actual amounts are determinable), the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Reclassifications

Certain reclassifications have been made to the 1995 financial statements to conform to the 1996 presentation. These reclassifications had no effect on net income or stockholder's equity as previously reported.

3. BUSINESS ACQUISITIONS

In March 1996, a joint venture between NRG and Transfield signed an 18-year power purchase agreement and an agreement for the acquisition and refurbishment of the 180 MW Collinsville coal-fired power generation facility in Queensland, Australia. NRG would own a 50% interest and operate the facility in conjunction with Transfield.

In April 1996, NRG, through bankruptcy proceedings, purchased a 41.86% interest in O'Brien Environmental Energy, Inc. that has been renamed as NRG Generating (U.S.) Inc. (NRGG). In addition to an equity interest in NRGG, NRG acquired certain landfill gas projects in the purchase which were transferred to NEO and a cogeneration facility.

On December 19, 1996 NRG and Nordic Power Invest AB purchased 96.6% of Bolivian Power Company Limited. NRG's ownership is 58%, however it is NRG's intent to reduce its holding to 50% or less.

NEO, a wholly-owned subsidiary, owns a 50% interest in Minnesota Methane LLC. In 1996, Minnesota Methane LLC acquired a 12 MW project in West Covina, California and acquired six projects as part of the NRGG acquisition. Of the projects acquired, four were operating facilities and two were projects under development and construction. In 1994, NEO acquired a 50% interest in Northbrook Energy. In 1996, Northbrook Energy acquired seven additional hydroelectric plants.

The total acquisition investments in these projects through December 31, 1996, including capitalized development costs, was approximately $121.5 million. Earnings from equity interests in these NRG projects acquired in 1996 contributed $2.7 million to NRG's 1996 earnings.

4. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment at December 31 were as follows:

	1996	1995
	(THOUSANDS OF DOLLARS)	
Facilities and equipment, including construction work in progress of $24,683 and $5,914	$187,014	$163,099
Land and improvements	10,397	10,397
Office furnishings and equipment	3,344	2,671
Total property, plant and equipment	200,755	176,167
Accumulated depreciation	(71,106)	(64,248)
Net property, plant and equipment	$129,649	$111,919

5. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

NRG has investments in various international and domestic energy projects. The equity method of accounting is applied to such investments in affiliates, which include joint ventures and partnerships, because the ownership structure prevents NRG from exercising a controlling influence over operating and financial policies of the projects. Under this method, equity in pretax income or losses of domestic partnerships and in the net income or losses of international projects are reflected as equity in earnings of unconsolidated affiliates.

A summary of NRG's significant equity-method investments which were in operation at December 31, 1996 is as follows:

NAME	GEOGRAPHIC AREA	ECONOMIC INTEREST	PURCHASED OR PLACED IN SERVICE
MIBRAG Mining and Power Generation	Germany	33.3%	January 1994
Gladstone Power Station	Australia	37.5%	March 1994
Schkopau Power Station	Germany	20.6%	January and July 1996
Scudder Latin American Trust for Independent Power Energy Project	Latin America	25.0%	June 1993
Collinsville Electric Generation	Australia	50.0%	March 1996
COBEE	Bolivia	58.0%	December 1996
NRG Generating	USA	41.9%	April 1996
Various Independent Power Production Facilities	USA	45%-50%	July 1991-December 1996
Rosebud Syncoal Partnership	USA	50.0%	August 1993

5. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD (Continued)

Summarized financial information for investments in unconsolidated affiliates accounted for under the equity method as of and for the year ended December 31, is as follows:

	1996	1995
	(THOUSANDS OF DOLLARS)	
Operating revenues	$ 886,947	$ 776,612
Costs and expenses	794,255	615,696
Net income	$ 92,692	$ 160,916
Current assets	$ 647,213	$ 757,124
Noncurrent assets	3,420,950	2,557,992
Total assets	$4,068,163	$3,315,116
Current liabilities	$ 365,905	$ 290,805
Noncurrent liabilities	2,732,922	2,236,919
Equity	969,336	787,392
Total liabilities and equity	$4,068,163	$3,315,116
NRG's share of equity	$ 365,749	$ 221,129
NRG's share of income	32,815	23,639

In June 1995, a power sales contract between a California energy project, in which NRG is a 45% investor, and an unaffiliated utility company was

terminated. A pretax gain of $29.9 million was recognized by NRG for its share of the termination settlement.

NRG recorded pretax charges of $1.5 million in 1996 and $5.0 million in 1995 to write down the carrying value of certain energy projects.

6. RELATED PARTY TRANSACTIONS.

Operating Agreements

NRG has two agreements with NSP for the purchase of thermal energy. Under the terms of the agreements, NSP charges NRG for certain costs (fuel, labor, plant maintenance, and auxiliary power) incurred by NSP to produce the thermal energy. NRG paid NSP $6.0 million in 1996 and $3.7 million in 1995 under these agreements.

NRG has a renewable 10-year agreement with NSP, expiring on December 31, 2001, whereby NSP agrees to purchase refuse-derived fuel for use in certain of its boilers and NRG agrees to pay NSP a burn incentive. NRG has an agreement expiring in 1997 to sell wood by-product obtained from a thermal customer to NSP for use as fuel. Under these agreements, NRG received $1.5 million and $1.9 million from NSP, and paid $2.2 million and $2.3 million to NSP in 1996 and 1995, respectively.

Administrative Services and Other Costs

NRG and NSP have entered into an agreement to provide for the reimbursement of actual administrative services provided to each other, an allocation of NSP administrative costs and a working capital fee. Services provided by NSP to NRG are principally cash management, legal, accounting, employee relations and engineering. In addition, NRG employees participate in certain employee benefit plans of NSP as discussed in Note 10. During 1996 and 1995, NRG paid NSP $7.2 million and $6.8 million, respectively, as reimbursement under this agreement.

Allocation is on a direct charge, actual cost basis where possible. When this is not possible, an allocation is made based upon employee headcounts, operating revenues and investment in fixed assets. Management believes that "allocated" costs approximate expenses that would be incurred on a stand alone basis.

6. RELATED PARTY TRANSACTIONS. (Continued)

In 1996, NRG and NSP entered into an agreement for NRG to provide operations and maintenance services for NSP's Elk River resource recovery facility and Becker ash landfill. During 1996, NSP paid NRG $1.5 million as reimbursement under this agreement.

7. NOTES RECEIVABLE

Notes receivable consist primarily of fixed and variable rate notes secured by equity interests in partnerships and joint ventures. The interest rate on the notes ranged from 7.0% to 12.5% at December 31, 1996 and 1995.

8. LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	1996	1995
	(THOUSANDS OF DOLLARS)	
NRG Energy Center, Inc. Senior Secured Notes Series due June 15, 2013, 7.31%	$ 76,986	$79,326
Note payable to NSP, due December 1, 1995-2006 5.40%-6.75%	8,405	8,958
NRG Sunnyside, Inc. note payable, due December 31, 1997, 10.00%	1,750	1,750
NRG Energy Senior Notes, due February 1, 2006, 7.625%	125,000	--
	212,141	90,034
Less current maturities	(4,848)	(3,762)
Total	$207,293	$86,272

The NRG Energy Center, Inc. notes are secured principally by long-term assets of the Minneapolis Energy Center (MEC). In accordance with the terms of the note agreements, MEC is required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of MEC assets, and affiliate transactions. MEC was in compliance with these covenants at December 31, 1996.

The note payable to NSP relates to long-term debt assumed by NRG in connection with the transfer of ownership of an RDF processing plant by NSP to NRG in 1993.

The NRG Sunnyside, Inc. note payable was issued in connection with the purchase of an equity interest in a waste-coal project in 1994.

The NRG Energy Senior Notes were issued in January 1996, are unsecured and require semi-annual interest payments on February 1 and August 1.

8. LONG-TERM DEBT (Continued)

Annual maturities of long-term debt for the years ending after December 31, 1996 are as follows:

	(THOUSANDS OF DOLLARS)
1997	$ 4,848
1998	3,335
1999	3,581
2000	3,841
2001	4,160
Thereafter	192,376
Total	$212,141

NRG has revolving-credit agreements which allow for Letters of Credit which may not exceed $63.9 million. There were $18.4 million and $0

outstanding letters of credit under the credit agreements at December 31, 1996 and 1995, respectively.

9. INCOME TAXES

NRG and its parent, NSP, have entered into a federal and state income tax sharing agreement relative to the filing of consolidated federal and state income tax returns. The agreement provides, among other things, that (1) if NRG, along with its subsidiaries, is in a taxable income position, NRG will be currently charged with an amount equivalent to its federal and state income tax computed as if the group had actually filed separate federal and state returns, and (2) if NRG, along with its subsidiaries, is in a tax loss position, NRG will be currently reimbursed to the extent its combined losses are utilized in a consolidated return, and (3) If NRG, along with its subsidiaries, generates tax credits, NRG will be currently reimbursed to the extent its tax credits are utilized in a consolidated return.

The provision for income taxes consists of the following:

	1996	1995
	(THOUSANDS OF DOLLARS)	
Current		
Federal	$ 633	$ 9,965
State	253	3,268
Foreign	616	233
	1,502	13,466
Deferred		
Federal	(3,655)	(1,592)
State	(1,498)	(1,012)
	(5,153)	(2,604)
Tax credits recognized	(2,004)	(2,052)
Total income tax (benefit) expense	$(5,655)	$ 8,810

9. INCOME TAXES (Continued)

The components of the net deferred income tax liability at December 31 were:

	1996	1995
	(THOUSANDS OF DOLLARS)	
Deferred tax liabilities		
Differences between book and tax bases of property	$16,606	$16,364
Investments in projects	2,988	1,226

Goodwill	2,974	444
Other	2,646	112
Total deferred tax liabilities	25,214	18,146
Deferred tax assets		
Deferred revenue	3,043	3,099
Development costs	5,581	--
Deferred investment tax credits	766	856
Deferred compensation, accrued vacation and other reserves	1,536	1,412
Steam capacity rights	1,043	1,109
Other	4,639	2,504
Total deferred tax assets	16,608	8,980
Net deferred tax liability	$ 8,606	$ 9,166

Rate Reconciliation

At December 31, 1996, the effective income tax rate (benefit) of (39.5)% differs from the statutory federal income tax rate of 35% primarily due to the fact that NRG generated a domestic tax loss of $15 million for the year. For the year ended December 31, 1995, NRG had a domestic tax income of $9.2 million with the change between 1996 and 1995 primarily attributable to a $29.9 million gain from the sale of a power agreement at SJVEP.

Income before income taxes includes net foreign equity income of $28 million and $32 million in 1996 and 1995, respectively. NRG's management intends to reinvest the earnings of foreign operations indefinitely. Accordingly, U.S. income taxes and foreign withholding taxes have not been provided on the earnings of foreign subsidiary companies. The cumulative amount of undistributed earnings of foreign subsidiaries upon which no U.S. income taxes or foreign withholding taxes have been provided is approximately $87.3 million at December 31, 1996. The additional U.S. income tax and foreign withholding tax on the unremitted foreign earnings, if repatriated, would be offset in whole or in part by Foreign tax credits. Thus, it is impracticable to estimate the amount of tax that might be payable.

10. BENEFITS PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Benefits

NRG participates in NSP's noncontributory, defined benefit pension plan that covers the majority of all U.S. employees. Benefits are based on a combination of years of service, the employee's highest average pay for 48 consecutive months, and Social Security benefits. Net annual periodic pension cost includes the following components:

10. BENEFITS PLANS AND OTHER POSTRETIREMENT BENEFITS (Continued)

	1996	1995
	(THOUSANDS OF DOLLARS)	
Service cost-benefits earned during the period	$ 1,115	$ 688

Interest cost on projected benefit obligation .	1,013	525
Actual return on assets	(1,983)	(1,542)
Net amortization and deferral	1,258	1,147
Net periodic pension cost	$ 1,403	$ 818

NRG's funding policy is to contribute to NSP the full actuarial pension cost accrued, less future tax benefits to be realized from such costs. Plan assets consist principally of common stock of public companies, corporate bonds and U.S. government securities. The funded status of the pension plan in which NRG employees participate is as follows at December 31, 1996 and 1995:

NSP Plan -- 1996

	TOTAL	NRG PORTION
	(THOUSANDS OF DOLLARS)	
Actuarial present value of benefit obligation		
Vested	$ 660,920	$ 6,464
Nonvested	147,278	3,422
Accumulated benefit obligation	$ 808,198	$ 9,886
Projected benefit obligation	$ 993,821	$14,253
Plan assets at fair value	1,634,696	12,986
Plan assets (in excess of) less than projected benefit obligation	(640,875)	1,267
Unrecognized prior service cost	(19,734)	(86)
Unrecognized net actuarial gain (loss)	651,368	256
Unrecognized net transitional asset	539	--
Net pension (prepaid) liability recorded	$ (8,702)	$ 1,437

NSP Plan -- 1995

	TOTAL	NRG PORTION
	(THOUSANDS OF DOLLARS)	
Actuarial present value of benefit obligation		
Vested	$ 686,403	$ 3,050
Nonvested	155,177	1,520
Accumulated benefit obligation	$ 841,580	$ 4,570
Projected benefit obligation	$1,039,981	$ 8,828
Plan assets at fair value	1,456,530	6,657
Plan assets (in excess of) less than projected benefit obligation	(416,549)	2,171
Unrecognized prior service cost	(20,805)	(91)
Unrecognized net actuarial gain (loss)	452,699	(1,388)
Unrecognized net transitional asset	615	--
Net pension liability recorded	$ 15,960	$ 692

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5% in 1996 and 7% in 1995. The rate of increase in future compensation levels

10. BENEFITS PLANS AND OTHER POSTRETIREMENT BENEFITS (Continued)

used in determining the actuarial present value of the projected obligation was 5% in 1996 and in 1995. The assumed long-term rate of return on assets used for cost determinations was 9% for 1996 and 8% for 1995. Changes in actuarial assumptions increased 1996 pension costs by $284,000 and are expected to decrease 1997 costs by $150,000.

Postretirement Health Care

NRG participates in NSP's contributory health and welfare benefit plan that provides health care and death benefits to the majority of all U.S. employees after their retirement. The plan is intended to provide for sharing of costs of retiree health care between NRG and retirees. For employees retiring after January 1, 1994, a six-year cost-sharing strategy was implemented with retirees paying 15% of the total cost of health care in 1994, increasing to a total of 40% in 1999.

Postretirement health care benefits for NRG are determined and recorded under the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the actuarially determined obligation for postretirement health care and death benefits to be fully accrued by the date employees attain full eligibility for such benefits, which is generally when they reach retirement age. In conjunction with the adoption of SFAS No. 106 in 1993, NRG elected to amortize on a straight-line basis over 20 years the unrecognized accumulated postretirement benefit obligation (APBO) of $1.4 million for current and future retirees.

Plan assets as of December 31, 1996, consisted of investments in equity mutual funds and cash equivalents. NRG's funding policy is to contribute to NSP benefits actually paid under the plan. The following table sets forth the funded status of the health care plan in which NRG employees participate at December 31, 1996 and 1995:

NSP Plan -- 1996

	TOTAL	NRG PORTION
	(THOUSANDS OF DOLLARS)	
APBO		
Retirees	$ 144,180	$ 323
Fully eligible plan participants	23,438	619
Other active plan participants	101,065	2,269
Total APBO	268,683	3,211
Plan assets at fair value	(15,514)	--
APBO in excess of plan assets	253,169	3,211
Unrecognized net actuarial loss	(12,467)	(366)
Unrecognized net transition obligation	(172,480)	(1,133)
Net benefit obligation recorded	$ 68,222	$ 1,712

10. BENEFITS PLANS AND OTHER POSTRETIREMENT BENEFITS (Continued)

NSP Plan -- 1995

	TOTAL	NRG PORTION
	(THOUSANDS OF DOLLARS)	
APBO		
Retirees	$ 145,800	$ 67
Fully eligible plan participants	24,400	518
Other active plan participants	116,800	2,239
Total APBO	287,000	2,824
Plan assets at fair value	(11,600)	--
APBO in excess of plan assets	275,400	2,824
Unrecognized net actuarial loss	(40,400)	(510)
Unrecognized net transition obligation	(183,200)	(1,203)
Net benefit obligation recorded	$ 51,800	$ 1,111

The assumed health care cost trend rates used in measuring the APBO at December 31, 1996 and 1995, were 9.8% and 10.4% for those under age 65, and 7.1% and 7.3% for those over age 65, respectively. The assumed cost trends are expected to decrease each year until they reach 5.5% for both age groups in the year 2004, after which they are assumed to remain constant. A 1% increase in the assumed health care cost trend rate for each year would increase the APBO by approximately 14% as of December 31, 1996. Service and interest cost components of the net periodic postretirement cost would increase by approximately 17% with a similar one percent increase in the assumed health care cost trend rate. The assumed discount rate used in determining the APBO was 7.5% for December 31, 1996 and 7% for December 31, 1995, compounded annually. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 106 was 8% for 1996 and 1995. Changes in actuarial assumptions had an immaterial impact on 1996 costs and are not expected to materially impact 1997 costs.

The net annual periodic postretirement benefit cost recorded for 1996 and 1995 consists of the following components:

	1996	1995
	(THOUSANDS OF DOLLARS)	
Service cost-benefits earned during the year	$257	$171
Interest cost on APBO	233	171
Amortization of transition obligation	70	70
Net amortization and deferral	26	--
Net periodic postretirement health care cost	$586	$412

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NRG Equity Plan

Employees are eligible to participate in the NRG Equity Plan (the Plan), a long term incentive plan. The Plan grants phantom equity units to employees based upon performance and job grade. NRG's equity units are valued based upon NRG's growth and financial performance. The primary financial measures used in determining the equity units' value are revenue growth, return on investment and cash flow from operations. The units are awarded to employees annually at the respective years calculated share price (grant price). The Plan provides employees with a cash payout for the appreciation in equity unit value over the vesting period. The Plan has a seven year vesting schedule with actual payments beginning after the end of the third year and continuing at 20% each year for the subsequent five years. The Plan includes a change of control provision, which allow all shares to vest if the ownership of NRG

10. BENEFITS PLANS AND OTHER POSTRETIREMENT BENEFITS (Continued)

were to change. Phantom equity units outstanding at December 31, 1996 and 1995 were 1,380,990 and 1,164,090, respectively. The cost of the phantom equity units is expensed over the vesting period from the date of issuance ($452,000 and $422,000 in 1996 and 1995, respectively).

Deferred Compensation

Certain employees of NRG are eligible to participate in a deferred compensation program. The employee can elect to defer a portion of their compensation until retirement. Earnings on the amounts deferred are equal to the return on the Fixed Income Option of the NSP Retirement Savings Plan. Earnings will be compounded annually and credited monthly. Payouts begin upon retirement with payments made over 180 equal monthly installments (or a minimum of $500 per month until their account balance is zero.)

11. SALES TO SIGNIFICANT CUSTOMERS

NRG and the Ramsey/Washington Resource Recovery Project have a service agreement for waste disposal which expires in 2006. Approximately 29.1% in 1996 and 32.1% in 1995 of NRG's revenues from wholly-owned operations were recognized under this contract. In addition, sales to one thermal customer amounted to 14.1% and 15.6% of revenues from wholly-owned operations in 1996 and 1995, respectively.

12. FINANCIAL INSTRUMENTS

The estimated December 31 fair values of recorded financial instruments are as follows:

	1996		1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Cash and cash equivalents.....	$ 12,438	$ 12,438	$ 7,039	$ 7,039
Restricted cash.....	17,688	17,688	9,773	9,773
Notes receivable, including current portion.	77,064	77,064	40,447	40,447
Long-term debt, including current portion ..	212,141	200,875	90,034	91,682

For cash, cash equivalents and restricted cash, the carrying amount approximates fair value because of the short-term maturity of those instruments. The fair value of notes receivable is based on expected future cash flows discounted at market interest rates. The fair value of long term debt is estimated based on the quoted market prices for the same or similar issues.

Derivatives

NRG has entered into seven forward foreign currency exchange contracts with counterparties to hedge exposure to currency fluctuations to the extent permissible by hedge accounting requirements. Pursuant to these contracts, transactions have been executed that are designed to protect the economic value in U.S. dollars of NRG's equity investments and retained earnings, denominated in Australian dollars and German deutsche marks (DM). As of December 31, 1996, NRG had $132 million of foreign currency denominated assets that were hedged by forward foreign currency exchange contracts with a notional value of $123 million. In addition, NRG had approximately $82 million of foreign currency denominated retained earnings from foreign projects that were hedged by forward foreign currency exchange contracts with a notional value of $59 million. Because the effects of both currency translation adjustments to foreign investments and currency hedge instrument gains and losses are recorded on a

12. FINANCIAL INSTRUMENTS (Continued)

net basis in stockholders' equity (not earnings), the impact of significant changes in currency exchange rates on these items would have an immaterial effect on NRG's financial condition and results of operations. In connection with the forward foreign currency exchange contracts, cash collateral of $16 million was required at December 31, 1996, which is reflected as restricted cash on NRG's balance sheet. The forward foreign currency exchange contracts terminate in 1998 through 2006 and require foreign currency interest payments by either party during each year of the contract. If the contracts had been terminated at December 31, 1996, $13.3 million would have been payable by NRG for currency exchange rate changes to date. Management believes NRG's exposure to credit risk due to non-performance by the counterparties to its forward exchange contracts is not significant, based on the investment grade rating of the counterparties.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

NRG leases certain of its facilities and equipment under operating leases, some of which include escalation clauses, expiring on various dates through 2010. Rental expense under these operating leases was $741,000 in 1996 and $796,000 in 1995. Future minimum lease commitments under these leases for the years ending after December 31, 1996 are as follows:

	(THOUSANDS OF DOLLARS)
1997.....	$ 1,050
1998.....	936
1999.....	956
2000.....	982
2001.....	1,008
Thereafter ..	5,349

Total.....	$10,281

Capital Commitments -- International

NRG signed a Joint Development Agreement for the acquisition, upgrading, expansion and development of Energy Center Kladno in Kladno, Czech Republic. The acquisition of the existing facility is the first phase of a development project that will include upgrading the existing plant and developing a new power generation facility. NRG has a $44 million commitment for the additional facilities.

NRG together with its partners, signed a power contract with PT Perusahaan Listrik Negara, the state-owned Indonesian electric company, to build, own and operate a 400 MW coal-fired power station in Cilegon, West Java, Indonesia. NRG has a $65 million commitment for the facility.

NRG is contractually committed to additional equity investments of $14 million for Scudder Latin American Power I and $7 million to Scudder Latin American Power II as of December 31, 1996.

NRG reached agreement to purchase a 50% equity interest in the Enfield Energy Centre, a 350 MW power project located in the North London borough of Enfield, England. NRG has a $62 million commitment.

NRG and Transfield signed an acquisition agreement for the acquisition and refurbishment of the 180 MW Collinsville coal-fired power generation facility in Queensland, Australia. NRG has a $9 million commitment.

13. COMMITMENTS AND CONTINGENCIES (Continued)

Future capital commitments related to international projects are as follows:

	(MILLIONS OF DOLLARS)
1997	$ 37
1998	75
1999	52
2000	29
2001	8
Total	$201

Capital Commitments -- Domestic

In 1996 NRG has provided a $10 million loan commitment to a wholly-owned subsidiary of NRG Generating (U.S.) Inc. (NRGG). The purpose of the loan is to allow NRGG to fund its capital contribution to a cogeneration project currently under construction. NRG anticipates funding the loan in 1997.

Also in 1996, NRG has committed to provide NRGG power generation investment opportunities in the United States over a period of three years. The projects must have an aggregate, over the three year term, equity value of at least $60 million or a minimum of 150 net megawatts. In addition, NRG has committed to finance these projects to the extent funds are not available

to NRGG on comparable terms from other sources.

Claims and Litigation

In normal course of business, NRG is a party to routine claims and litigation arising from current and prior operations. NRG is actively defending these matters and does not believe the outcome of such matters would materially impact the results of operations or financial position.

14. SEGMENT REPORTING

NRG conducts its business within one industry segment--independent power generation. Operations in the United States include wholly-owned operations and investments in various domestic energy projects. International operations include investments in various international energy projects. See Note 5 for significant equity method investments.

1996	U.S.	EUROPE	ASIA PACIFIC	OTHER AMERICAS	CORPORATE/ OTHER	TOTAL
			(IN THOUSANDS)			
Revenues from wholly-owned operations	$ 71,649					$ 71,649
Equity in operating earnings (losses) of unconsolidated affiliates	1,473	$ 17,385	$11,155	$ 967	$ 1,835	32,815
Total operating revenues	73,122	17,385	11,155	967	1,835	104,464
Net income	28,182	17,385	11,155	967	(37,711)(1)	19,978
Assets reported on a consolidated basis	148,666				42,159 (2)	190,825
Equity investments and loans to affiliates	130,786	210,587	97,988	50,623		489,984
Total assets	279,452	210,587	97,988	50,623	42,159	680,809

14. SEGMENT REPORTING (Continued)

1995	U.S.	EUROPE	ASIA PACIFIC	OTHER AMERICAS	CORPORATE/ OTHER	TOTAL
			(IN THOUSANDS)			
Revenues from wholly-owned operations	64,180					64,180
Equity in operating earnings (losses) of unconsolidated affiliates	(2,398)	22,143	11,451	29	(7,586)	23,639
Total operating revenues	61,782	22,143	11,451	29	(7,586)	87,819
Net income	50,813	22,143	11,451	29	(53,235)(1)	31,201
Assets reported on a consolidated basis	124,807				21,569 (2)	146,376
Equity investments and loans to affiliates	118,220	106,809	78,303	4,881		308,213
Total assets	$243,027	$106,809	$78,303	$4,881	$ 21,569	$454,589

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(1) Includes all expenses not allocated to either consolidated operations or equity investments. This includes general, administrative and development expenses as well as other income (net), interest expense and taxes.

(2) Includes cash, debt issuance costs and other items not directly related to specific asset groups.

15. SUBSEQUENT EVENT

On February 6,1997, NRG signed a subscription agreement with Energy Developments Limited (EDL) to acquire up to 20% of common stock, and an additional 15% of preference shares at AUS$2.20 per share. EDL is an Australian company engaged exclusively in independent power generation from landfill gas, coal seam methane and natural gas (including latest technology combined cycle projects). EDL is the largest generator of power from coal seam methane in the world. The company currently operates over 200 MW of generation across five states and territories of Australia and has commenced the development of new projects in the United Kingdom, Asia and New Zealand. The current equity megawatt ownership held by EDL is approximately I70 MW. EDL is a publicly traded company with its securities listed on the Australian Stock Exchange. On February 11, 1997 NRG made an initial purchase of 7.2% (4.5 million shares) of common stock for AUS$9.9 million (US$7.9 million).

REPORT OF INDEPENDENT AUDITORS
NRG ENERGY, INC. AND SUBSIDIARIES

To the Board of Directors and Stockholder
NRG Energy, Inc.
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheet of NRG Energy, Inc. (the Company) (a wholly-owned subsidiary of Northern States Power Company) as of December 31, 1994 and the related consolidated statements of income, stockholder's equity, and cash flows for the year ended December 31, 1994. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the 1994 financial statements of Sunshine State Power BV and Sunshine State Power (No. 2) BV, the Company's investments in which are accounted for by use of the equity method. These investments represent 19% of total assets as of December 31, 1994 and the equity in earnings represents 32% of equity in earnings of projects for the year ended December 31, 1994. The financial statements of Sunshine State Power BV and Sunshine State Power (No. 2) BV were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of such other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1994, and the results of its operations and its cash flows for the year ended December 31, 1994, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Minneapolis, Minnesota
March 24, 1995

NRG ENERGY, INC.
CONSOLIDATED BALANCE SHEET

	DECEMBER 31, 1994
	(THOUSANDS OF DOLLARS)
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 17,507
Restricted cash	13,817
Accounts receivable--trade, less allowance for doubtful accounts of $185	11,576
Accounts receivable--affiliates	610
Income taxes receivable	2,442
Current portion of notes receivable	3,115
Inventory	1,704
Prepayments and other current assets	1,173
TOTAL CURRENT ASSETS	51,944
Property, Plant and Equipment, at Original Cost:	
In service	163,438
Under construction	2,289
	165,727
Less accumulated depreciation	(58,093)
Net property, plant and equipment	107,634
Other Assets:	
Investments in projects	164,863
Capitalized project costs	3,030
Notes receivable, less current portion-affiliates	3,687
Intangible assets, net of accumulated amortization of $2,549	44,798
Debt issuance costs, net of accumulated amortization of $148	614
Total other assets	216,992
TOTAL ASSETS	$376,570

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED BALANCE SHEET -- (CONTINUED)

	DECEMBER 31, 1994
	(THOUSANDS OF DOLLARS)
LIABILITIES AND STOCKHOLDER'S EQUITY	

Current liabilities:	
Current portion of long-term debt	$ 3,306
Accounts payable--trade	5,199
Note payable--affiliates	3,037
Accrued property and sales taxes	2,291
Accrued salaries, benefits and related costs	2,751
Other current liabilities	11,021
TOTAL CURRENT LIABILITIES	27,605
Long-term debt, less current portion	90,033
Deferred revenues	8,811
Deferred income taxes	11,519
Deferred investment tax credits	2,324
Deferred compensation	1,556
TOTAL LIABILITIES	141,848
Commitments and Contingencies (Note 13)	
Stockholder's Equity:	
Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1
Additional paid-in capital	216,013
Retained earnings	15,122
Currency translation adjustments	3,586
TOTAL STOCKHOLDER'S EQUITY	234,722
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$376,570

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDED DECEMBER 31, 1994
	(THOUSANDS OF DOLLARS)
Operating revenues:	
Revenues from wholly-owned operations	$63,970
Equity in operating earnings of unconsolidated affiliates	27,155
Total operating revenues	91,125
Operating costs and expenses:	
Cost of wholly-owned operations	34,861
Depreciation and amortization	8,675
General, administrative and development expenses	19,993
Total operating costs and expenses	63,529
Operating income	27,596
Other income (expense):	
Equity in gain from project termination settlements	9,685
Other income, net	1,411
Interest expense	(6,682)
Total other income	4,414
Income before income taxes	32,010
Income taxes	2,472
Net Income	$29,538

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 1994
	(THOUSANDS OF DOLLARS)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 29,538
Adjustments to reconcile net income to net cash provided (used) by operating activities	
Undistributed equity in operating earnings of unconsolidated affiliates	(18,511)
Depreciation and amortization	8,675
Deferred income taxes and investment tax credits	(523)
Cash (used) provided by changes in certain working capital items	(6,138)
Cash (used) by changes in other assets and liabilities	(615)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	12,426
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments in projects	(102,119)
Loans to projects	(4,415)
Capital expenditures	(5,750)
(Increase) decrease in restricted cash	(13,817)
Other, net	2,255
NET CASH USED BY INVESTING ACTIVITIES	(123,846)
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions from parent	103,885
Dividends and other distributions paid to parent	(9)
Proceeds from issuance of long-term debt	2,375
Principal payments on long-term debt	(2,487)
NET CASH PROVIDED BY FINANCING ACTIVITIES	103,764
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,656)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	25,163
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 17,507
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid (net of amount capitalized)	$ 6,808
Income tax benefits received, net of taxes paid	(1,939)

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	CURRENCY TRANSLATION ADJUSTMENTS	TOTAL STOCKHOLDER'S EQUITY
			(THOUSANDS OF DOLLARS)		
Balances at December 31, 1993	$1	$112,128	$(14,407)		$ 97,722
Net income			29,538		29,538
Dividends and other distributions to					

parent			(9)		(9)
Capital contributions from parent		103,885			103,885
Currency translation adjustments				$3,586	3,586
Balances at December 31, 1994	$1	$216,013	$ 15,122	$3,586	$234,722

See accompanying notes

NRG ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

NRG Energy, Inc. (the Company), a Delaware Corporation, was incorporated on May 29, 1992, as a wholly-owned subsidiary of Northern States Power Company (NSP). Beginning in 1989, the Company was doing business through its predecessor companies. NRG Energy, Inc. and NRG Group, Inc. Minnesota corporations which were merged into the Company subsequent to its incorporation. The Company and its subsidiaries and affiliates develop, build, acquire, own and operate nonregulated energy-related businesses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (referred to collectively herein as NRG). All significant intercompany transactions have been eliminated. Investments in partnerships, joint ventures and projects representing ownership of more than 20%, but not in excess of 50%, are accounted for on the equity method.

Cash equivalents

Cash equivalents include highly liquid investments (primarily commercial paper) with a remaining maturity of three months or less at the time of purchase.

Restricted cash

Restricted cash consists primarily of cash collateral required in connection with foreign currency hedging activities (see Note 12) and cash collateral for letters of credit issued in relation to project development activities.

Inventory

Inventory is valued at the lower of average cost or market and consists principally of spare parts and raw materials used to generate steam.

Property, plant and equipment

Property, plant and equipment are capitalized at original cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	20-45 years
Machinery and equipment	7-30 years
Office furniture and equipment	3-5 years

Capitalized interest

Interest incurred on funds borrowed to finance projects expected to require more than three months to complete is capitalized. Capitalization of interest is discontinued when the project is completed and considered operational. Capitalized interest is amortized using the straight-line method over the useful life of the related project. Capitalized interest was $45,000 in 1994.

Development and capitalized project costs

These costs include professional services, dedicated employee salaries, permits, and other costs which are incurred incidental to a particular project. Such costs are expensed as incurred until a sales agreement or letter of intent is signed, after which time they are capitalized. When project operations begin, previously capitalized project costs are amortized on a straight-line basis over the lesser of the life of the project's related assets or revenue contract period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt issuance costs

Costs to issue long-term debt have been capitalized and are being amortized over the terms of the related debt.

Intangibles

Intangibles consist principally of service agreements and the excess of the cost of investment in subsidiaries over the underlying fair value of the net assets acquired and are being amortized using the straight-line method over 30 years. Intangibles also include patents which are being amortized using the straight-line method over 17 years. The Company periodically evaluates the recovery of goodwill and other intangibles based on an analysis of the estimated undiscounted future cash flows.

Income taxes

The Company is included in the consolidated tax returns of NSP. NRG calculates its income tax provision on a separate return basis under a tax sharing arrangement with NSP. Current federal and state income taxes are payable to or receivable from NSP. NRG records income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes." Under the liability method required by SFAS No.109, income taxes are deferred on all temporary differences between pretax financial and taxable income and between the book and tax bases of assets and liabilities. Deferred taxes are recorded using the tax rates scheduled by law to be in effect when the temporary differences reverse. Investment tax credits are deferred and amortized over the estimated lives of the related property.

Revenue recognition

Under fixed-price contracts, revenues are recognized as deliveries of products or services are made. Revenues and related costs under cost reimbursable contract provisions are recorded as costs are incurred. Anticipated future losses on contracts are charged against income when identified.

Deferred revenues related to a 1988 legal settlement with a major thermal

customer. Settlement proceeds were deferred when received and are reflected in operating income on a straight-line basis over the life of the related steam contract which expires in 2001.

Foreign currency translation

The local currencies are generally the functional currency of NRG's foreign operations. Foreign currency denominated assets and liabilities are translated at end-of-period rates of exchange. Income, expense and cash flows are translated at weighted-average rates of exchange for the period. The resulting currency translation adjustments are accumulated and reported as a separate component of stockholder's equity.

Exchange gains and losses that result from foreign currency transactions (e.g., converting cash distributions made in one currency to another currency) are included in the results of operations. Through December 31, 1994, NRG has not experienced any material translation gains or losses from foreign currency transactions.

Derivative financial instruments

NRG's policy is to hedge financial currency denominated investments as they are made to preserve their U.S. dollar value. NRG has entered into currency hedging transactions through the use of forward

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

foreign currency exchange agreements. Gains and losses on these contracts offset the effect of foreign currency exchange rate fluctuations on the valuation of the investments underlying the hedges. The effect of hedging gains and losses, net of income taxes, is reported with other currency translation adjustments as a separate component of stockholder's equity. The Company is not hedging currency translation adjustments related to operating results. NRG does not speculate in foreign currencies.

Accounting change

In 1994, the Company adopted SFAS No. 112, "Employers' Accounting for Postretirement Benefits." SFAS No. 112 requires the accrual of certain employee costs (such as injury compensation or severance) to be paid in future periods. The adoption of this new accounting standard did not have a material effect on NRG's results of operations or financial condition.

3. BUSINESS ACQUISITIONS

Through its subsidiaries, NRG purchased equity interests during 1994 in three significant international projects, two in Germany and one in Australia. One of the investments is a 33% interest in Mitteldeutsche Braunkohlengesellschaft mbH (MIBRAG), a German corporation. MIBRAG was formed by the German government to operate mines, electric power plants and other energy-related facilities. The other German investment is a 50% interest in Saale Energie GmbH (Saale), also a German corporation. Saale owns a 400 megawatt share of a 900 megawatt power plant currently under construction near Schkopau, Germany. The Australian investment is a 37.5% interest (held by wholly-owned NRG subsidiaries Sunshine State Power BV and Sunshine State Power (No. 2) BV) in a joint venture that acquired a 1,680 megawatt coal-fired power plant in Gladstone, Queensland, Australia, which is operated by an NRG subsidiary. The total acquisition investments in these three projects through 1994, including capitalized developments costs, was approximately $100 million. Earnings from equity interests in these NRG international projects acquired in 1994 contributed $25.6 million to NRG's

1994 earnings.

On December 31, 1994, NRG, through a wholly-owned subsidiary, purchased a 50% partnership interest in Sunnyside Cogeneration Associates, a Utah joint venture (partnership) which owns and operates a 51 megawatt waste coal plant in Utah. The acquisition investment by NRG was $11.5 million. The waste coal plant is currently being operated by a 50%-owned NRG partnership.

In August 1993, NRG Energy Center, Inc., a wholly-owned subsidiary of NRG, acquired the assets of the Minneapolis Energy Center (MEC), a district heating and cooling system in downtown Minneapolis, Minnesota. The system uses steam and chilled water generating facilities to heat and cool buildings for about 90 heating and 30 cooling customers. The acquisition was reflected in the financial statements under the purchase method of accounting. Accordingly, the assets acquired and liabilities assumed in the acquisition have been recorded at their fair values. The purchase price was $110 million, $84 million of which was financed by project debt. The purchase price primarily included facilities, long-term service agreements and goodwill. The results of operations of MEC since August 1993 have been included in the consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment at December 31 were as follows:

	1994
	(THOUSANDS OF DOLLARS)
Facilities and equipment, including construction work in progress of $2,289	$153,221
Land and improvements	10,397
Office furnishings and equipment	2,109
Total property, plant and equipment	165,727
Accumulated depreciation	(58,093)
Net property, plant and equipment	$107,634

5. INVESTMENTS ACCOUNTED FOR BY EQUITY METHOD

A summary of NRG's significant equity-method investments which were in operation at December 31, 1994 is as follows:

NAME	GEOGRAPHIC AREA	ECONOMIC INTEREST	PURCHASED OR PLACED IN SERVICE
Various Independent Power Production Facilities	U.S.A.	45%-50%	July 1991-December 1994
Rosebud Syncoal Partnership	U.S.A.	50%	August 1993
MIBRAG	Europe	33%	January 1994
Gladstone Power Station	Australia	37.5%	March 1994
Schkopau Power Station	Europe	20.6%	Under Construction
Scudder Latin American Trust for Independent Power Energy Projects	Latin America	6.3%-12.5%	April-December 1994

Summarized financial information for investments in projects accounted for

under the equity method as of and for the year ended December 31, is as follows:

	1994
	(THOUSANDS OF DOLLARS)
Operating revenues	$ 731,308
Costs and expenses	604,428
Net income	$ 126,880
Current assets	$ 452,651
Noncurrent assets	1,787,089
Total assets	$2,239,740
Current liabilities	$ 159,840
Noncurrent liabilities	1,757,057
Equity	322,843
Total liabilities and equity	$2,239,740
NRG's share of equity	$ 164,863
NRG's share of income	$ 27,155

5. INVESTMENTS ACCOUNTED FOR BY EQUITY METHOD (Continued)

In July 1994, Michigan Cogeneration Partners Limited Partnership (MCP), a partnership between subsidiaries of NRG and Cogentrix, Inc., reached an agreement with Consumers Power Company (Consumers), an electric utility headquartered in Jackson, Michigan, to terminate the power sales contract related to a 65 megawatt cogeneration facility being developed by MCP in Parchment, Michigan. The agreement to terminate the contract required Consumers to make payment to MCP of $29.8 million. As a result, NRG recorded in Other Income. A net pretax gain from the termination of this contract of $9.7 million in 1994.

In 1994, the Company recorded a pretax charge of $5.0 million to write down the carrying value of two energy projects. The charge was determined based on estimated discounted future cash flows, and is recorded in Other Income, Net.

6. RELATED PARTY TRANSACTIONS

Operating Agreements

NRG has two agreements with NSP for the purchase of thermal energy. Under the terms of the agreements, NSP charges NRG for certain incremental costs (fuel, labor, plant maintenance, and auxiliary power) incurred by NSP to produce the thermal energy. NRG paid NSP $6.6 million in 1994 under these agreements.

NRG has a renewable 10-year agreement with NSP, expiring on December 31, 2001, whereby NSP agrees to purchase refuse-derived fuel for use in certain of its boilers and NRG agrees to pay NSP a burn incentive. NRG has an

agreement expiring in 2006 to sell wood by-products obtained from a thermal customer to NSP for use as fuel. Under these agreements, NRG received $1.7 million from NSP and paid $2.2 million to NSP in 1994.

Administrative Services and Other Costs

NRG and NSP have entered into an agreement to provide for the reimbursement of actual administrative services provided to each other, an allocation of NSP administrative costs and a working capital fee. Services provided by NSP to NRG are principally cash management, legal, accounting, employee relations and engineering. In addition, NRG employees participate in operating certain employee benefit plans of NSP. During 1994, NRG paid NSP $6.2 million as reimbursement for the cost of services provided.

Allocation is on a direct charge, actual cost basis where possible. When this is not possible, an allocation is made based upon employee headcounts, operating revenues and investment in fixed assets. Management believes that "allocated" costs approximate expenses that would be incurred on a stand alone basis.

7. NOTES RECEIVABLE

Notes receivable consist primarily of fixed and variable rate notes secured by equity interests in partnerships and joint ventures. The weighted average interest rate on the notes was 11.2% at December 31, 1994.

8. LONG-TERM DEBT

Long-term debt consists of the following at December 31:

	1994
	(THOUSANDS OF DOLLARS)
NRG Energy Center, Inc. Senior Secured Notes Series due June 15, 2013, 7.31%	$81,498
Note payable to NSP, due December 1, 1995-2006, 5.40%-6.75%	9,466
NRG Sunnyside Inc. note payable, due December 31, 1997, 10.00%	2,375
	93,339
Less current maturities	(3,306)
	$90,033

The NRG Energy Center, Inc. notes are secured principally by MEC's long-term assets. In accordance with the terms of the note agreements, the Company is required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of Company assets, and affiliate transactions. The Company was in compliance with these covenants at December 31, 1994.

The Note Payable to NSP relates to long-term debt assumed by the Company in connection with the transfer of ownership of an RDF processing plant by NSP to the Company during 1993.

The NRG Sunnyside, Inc. note payable was issued in connection with the purchase of an equity interest in a waste-coal project during 1994.

Annual maturities of long-term debt for the years ending after December 31, 1994 are as follows:

	(THOUSANDS OF DOLLARS)
1995.....	$ 3,306
1996.....	3,762
1997.....	3,979
1998.....	3,335
1999.....	3,581
Thereafter ..	75,376
Total.....	$93,339

The Company has a revolving-credit agreement which may not exceed $5.0 million. At December 31, 1994, there were no borrowings under the credit agreement.

9. INCOME TAXES

The provision for income taxes consists of the following:

	1994 (THOUSANDS OF DOLLARS)
Current	
Federal.....	$ 1,694
State.....	737
Foreign.....	219
	2,650
Deferred	
Federal.....	1,280
State.....	369
	1,649
Tax credits recognized ..	(1,827)
Total income tax expense.....	$ 2,472

The components of the net deferred income tax liability at December 31 were:

	1994 (THOUSANDS OF DOLLARS)

Deferred tax liabilities	
Differences between book and tax bases of property	$13,269
Investments in projects.....	6,168
Goodwill.....	256
Other.....	930
Total deferred tax liabilities.....	20,623
Deferred tax assets	
Deferred revenue.....	3,645
Development costs.....	2,047
Deferred investment tax credits.....	978
Deferred compensation, accrued vacation and other reserves.....	992
Steam capacity rights.....	1,175
Other.....	267
Total deferred tax assets.....	9,104
Net deferred tax liability.....	$11,519

Actual income tax expense recorded differs from the statutory federal income tax rate of 35% due to state income taxes, varying tax treatment of foreign income and expenses and tax credits recognized.

Income before income taxes includes foreign income of $25.6 million in 1994. NRG's management intends to reinvest in earnings of foreign operations indefinitely. Accordingly, U.S. income taxes and foreign withholding taxes have not been provided on the earnings of foreign subsidiary companies. The cumulative amount of undistributed pre-tax earnings of foreign subsidiaries upon which no U.S. income taxes or foreign withholding taxes have been provided is approximately $25.6 million at December 31, 1994. The additional U.S. income tax and foreign withholding tax on the unremitted foreign earnings, if repatriated, would be offset in whole or in part by foreign tax credits. Thus, it is impracticable to estimate the amount of tax that might be payable.

10. BENEFIT PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Benefits

NRG participates in NSP's noncontributory, defined benefit pension plan that covers substantially all employees. Benefits are based on a combination of year of service, the employee's highest average pay for 48 consecutive months, and Social Security benefits. Pension costs for NRG are determined and recorded under the provisions of SFAS No. 87, "Employers' Accounting for Pensions." Net annual periodic pension cost includes the following components:

	1994
	(THOUSANDS OF DOLLARS)
Service cost-benefits earned during the period.....	$ 654
Interest cost on projected benefit obligation.....	354

Actual return on assets	(58)
Net amortization and deferral	(262)
Net periodic pension cost	$ 688

The funded status of the pension plan in which NRG employees participate is as follows at December 31:

	NSP PLAN-1994	
	TOTAL NSP	NRG PORTION
	(THOUSANDS OF DOLLARS)	
Actuarial present value of benefit obligation		
Vested	$ 571,254	$ 563
Nonvested	120,420	1,016
Accumulated benefit obligation	$ 691,674	$1,579
Projected benefit obligation	$ 836,957	$4,228
Plan assets at fair value	1,165,584	5,170
Plan asset in excess of projected benefit obligation	(328,627)	(942)
Unrecognized prior service costs	(21,538)	(96)
Unrecognized net actuarial gain	370,289	1,038
Unrecognized net transitional asset	691	--
Net pension liability recorded	$ 20,815	$ --

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 8% in 1994. The rate of increase in future compensation levels used in determining the actuarial present value of the projected obligation was 5% in 1994. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 87 was 8% for 1994. Plan assets consist principally of common stock of public companies and U.S. Government securities.

Postretirement Health Care

Effective January 1, 1993, NRG adopted the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires the actuarial determined obligation for postretirement health care and death benefits be fully accrued by the date employees attain full eligibility for such benefits, which is generally when they reach retirement age. In conjunction with the adoption of SFAS No. 106, NRG elected to amortize on a straight-line basis over 20 years the unrecognized accumulated postretirement benefit obligation (APBO) of $1.4 million for current and future

10. BENEFIT PLANS AND OTHER POSTRETIREMENT BENEFITS (Continued)

retirees. This obligation considered 1994 plan design changes not in effect in 1993, including Medicare integration, increased retiree cost sharing, and managed indemnity measures.

The following table sets forth the funded status of the health care plan in which NRG employees participate at December 31:

	NSP PLAN-1994	
	TOTAL NSP	NRG PORTION
	(THOUSANDS OF DOLLARS)	
APBO		
Retirees	$ 132,200	$ 34
Fully eligible plan participants	21,500	359
Other active plan participants	79,400	1,319
Total APBO	233,100	1,712
Plan assets at fair value	8,000	--
APBO in excess of plan assets	225,100	1,712
Unrecognized net actuarial gain	2,300	265
Unrecognized net transition obligation	(194,000)	(1,273)
Net benefit obligation recorded	$ 33,400	$ 704

The assumed health care cost trend rates used in measuring the APBO at December 31, 1994 were 11.0% for those under age 65, and 7.5% for those over age 65. The assumed cost trends are expected to decrease each year until they reach 5.5% for both age groups in the year 2004, after which they are assumed to remain constant. A one percent increase in the assumed health care cost trend rate for each year would increase the APBO by approximately 13% as of December 31, 1994. Service and interest cost components of the net periodic postretirement cost would increase by approximately 16% with a similar one percent increase in the assumed health care cost trend rate. The assumed discount rate used in determining the APBO was 8% for December 31, 1994, compounded annually. The assumed long-term rate of return on assets used for cost determinations under SFAS No. 106 was 8% for 1994. The net annual periodic postretirement benefit cost recorded for 1994 consists of the following components:

	1994
	(THOUSANDS OF DOLLARS)
Service cost--benefits earned during the year	$140
Interest cost on APBO	126
Amortization of transition obligation	70
Net amortization and deferral	--
Net periodic postretirement health care costs	$336

11. SALES TO SIGNIFICANT CUSTOMERS

NRG and the Ramsey/Washington Resource Recovery Project have a service agreement for waste disposal which expires in 2006. Approximately 35.5% in 1994 of the Company's operating revenues from wholly-owned operations were recognized under this contract. In addition, sales to one thermal customer

amounted to 16.6% of operating revenues from wholly-owned operations in 1994.

12. FINANCIAL INSTRUMENTS

The estimated December 31 fair values of NRG's recorded financial instruments are as follows:

	1994	
	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)	
Cash and cash equivalents	$17,507	$17,507
Restricted cash	13,817	13,817
Notes receivable, including current portion	6,802	6,802
Long-term debt, including current portion	93,339	82,694

For cash, cash equivalents and restricted cash, the carrying amount approximates fair value because of the short-term maturity of those instruments. The fair value of notes receivable is based on expected future cash flows discounted at market interest rates. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues.

NRG has entered into three forward foreign currency exchange contracts with a counterparty to hedge exposure to currency fluctuations to the extent permissible by hedge accounting requirements. Pursuant to these contracts, transactions have been executed that are designed to protect the economic value in U.S. dollars of NRG's equity investments, denominated in Australian dollars and German deutsche marks (DM). NRG's forward currency exchange contracts, in the notional amount of $93 million, hedge approximately $94 million of foreign currency denominated investments at December 31, 1994. These foreign currency exchange contracts are not reflected in NRG's balance sheet. The contracts do require cash collateral which was $6.7 million at December 31, 1994 and is included in restricted cash on NRG's balance sheet. The contracts terminate in 2004 and require foreign currency interest payments by either party during each year of the contract. If the contracts had been terminated at December 31, 1994, $4.3 million would have been payable by NRG for currency exchange rate changes to date. Management believes NRG's exposure to credit risk due to nonperformance by the counterparty to its forward exchange contracts is not significant, based on the investment grade rating of the counterparty.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company has noncancelable operating leases for office space. The leases require the company to pay certain annual operating costs, including maintenance, insurance and real estate taxes. Rental expense under these operating leases was $178 in 1994 (thousands of dollars). Future minimum lease commitments under these leases for the years ended after December 31, 1994 are as follows:

	(THOUSANDS OF DOLLARS)
1995.....	$221
1996.....	246
1997.....	131
Total...	$598

Financial Guarantees

Certain of the partnerships in which NRG is an equity investor have loan agreements and debt outstanding which contain restrictive covenants. In the event that certain covenants are not met, NRG has guaranteed the contribution of $3.8 million of additional equity. No contributions of additional equity were necessary during 1994.

13. COMMITMENTS AND CONTINGENCIES (Continued)

Capital Commitments

NRG is contractually committed to additional equity investments in an existing German energy project. Such commitments are for approximately DM 36 million in 1995 and DM 35 million in 1996. The 1995 and 1996 commitments would be approximately $23 million each year, based on exchange rates in effect at December 31, 1994.

In addition, NRG is contractually committed to additional equity investments of $20.6 million in the Scudder Latin American Trust for Independent Power Energy Projects as of December 31, 1994.

14. SEGMENT REPORTING

NRG conducts its business within one industry segment--independent power generation. Operations in the United States include wholly-owned operations and investments in various domestic energy projects. International operations include investments in various international energy projects. See Note 5 for significant equity method investments.

1994	U.S.	EUROPE	ASIA PACIFIC	OTHER AMERICAS	CORPORATE/ OTHER	TOTAL
			(IN THOUSANDS)			
Revenues from wholly-owned operations.....	$ 63,970					$ 63,970
Equity in operating earnings (losses) of unconsolidated affiliates.....	(766)	$19,340	$ 8,581			27,155
Total operating revenues.....	63,204	19,340	8,581			91,125
Net income.....	19,668	19,340	8,581		$(18,051)(1)	29,538
Assets reported on a consolidated basis.....	122,087				34,380 (2)	156,467
Equity investments and loans to affiliates.....	116,073	33,389	70,641			220,103
Total assets.....	$238,160	$33,389	$70,641		$ 34,380	$376,570

(1) Includes all expenses not allocated to either consolidated operations or equity investments. This includes general, administrative and development expenses as well as other income (net), interest expense and taxes.
(2) Includes cash, debt issuance costs and other items not directly related to specific asset groups.

15. SUBSEQUENT EVENT

NRG, through wholly-owned subsidiaries, owns 45% of the San Joaquin Valley Energy Partnership (SJVEP), which owns four plants located near Fresno, California with a total capacity of 55 megawatts. Through February 1995, the plants operated under long-term Standard Offer 4 (SO4) power sales contracts with Pacific Gas and Electric (PG&E) which expire in 2017. On February 28, 1995, PG&E reached basic agreements with SJVEP to acquire the SO4 contracts. The parties entered into a bridging agreement to cover the period until all regulatory approvals are received for the transaction. The bridging agreement required SJVEP to cease power deliveries to PG&E as of February 28, 1995. The negotiated agreements will result in cost savings for PG&E customers as well as economic benefits for SJVEP. The final impact of this transaction on the financial results of NRG will not be known until the agreements have been approved and all costs associated with the idling of the facilities are known. It is expected that a one-time gain from the transaction will be recorded in the first half of 1995. SJVEP will continue to own and maintain the facilities and will explore all available options.

NRG ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	JUNE 30,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 22,815	$ 12,208
Restricted cash	347	19,493
Accounts receivable-trade, less allowance for doubtful accounts	13,951	10,400
Accounts receivable-affiliates	9,956	--
Current portion of notes receivable--affiliates	48,555	--
Current portion of notes receivable	15,139	105,678
Income taxes receivable	7,074	2,732
Inventory	2,484	2,401
Prepayments and other current assets	2,380	1,109
TOTAL CURRENT ASSETS	122,701	154,021
Property, Plant and Equipment, at Original Cost:		
In service	198,989	170,509
Under construction	16,809	10,529
	215,798	181,038
Less accumulated depreciation	(74,739)	(67,649)
Net property, plant and equipment	141,059	113,389
Other Assets:		
Investments in projects	638,780	251,107
Capitalized project costs	16,858	7,422
Notes receivable, less current portion--affiliates	55,136	32,389
Notes receivable, less current portion	--	--
Intangible assets, net of accumulated amortization	40,171	41,236
Debt issuance costs, net of accumulated amortization	4,965	2,850

Total other assets	755,910	335,004
TOTAL ASSETS	$1,019,670	$602,414

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED BALANCE SHEETS -- (CONTINUED)
(UNAUDITED)

	JUNE 30,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 5,312	$ 3,848
Accounts payable--trade	2,282	3,062
Notes payable--affiliates	43	2,075
Accrued income taxes	11,809	--
Accrued property and sales taxes	2,199	2,236
Accrued salaries, benefits and related costs	7,446	5,050
Accrued interest	1,870	--
Other current liabilities	5,637	6,121
TOTAL CURRENT LIABILITIES	36,598	22,392
Long-term debt, less current portion	458,302	210,040
Deferred revenues	12,180	7,033
Deferred income taxes	11,680	7,138
Deferred investment tax credits	1,725	1,980
Deferred compensation	2,259	1,632
TOTAL LIABILITIES	522,744	250,215
Stockholder's Equity:		
Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	432,480	296,024
Retained earnings	78,290	52,830
Currency translation adjustments	(13,845)	3,344
TOTAL STOCKHOLDER'S EQUITY	496,926	352,199
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$1,019,670	$602,414

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	JUNE 30,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
Operating revenues:		
Revenues from wholly-owned operations	$ 42,685	$35,367
Equity in operating earnings of unconsolidated affiliates	13,846	11,914
Total operating revenues	56,531	47,281
Operating costs and expenses:		
Cost of operations--wholly-owned operations	22,696	18,104
Depreciation and amortization	4,544	4,161
General, administrative, and development	18,039	18,280
Total operating costs and expenses	45,279	40,545
Operating income	11,252	6,736
Other income (expense):		
Other income, net	6,267	4,255
Interest expense	(11,182)	(7,277)
Total other income (expense)	(4,915)	(3,022)
Income before income taxes	6,337	3,714
Income (benefit) taxes	(5,652)	(2,793)
Net Income	$ 11,989	$ 6,507

See accompanying notes

NRG ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	JUNE 30,	
	1997	1996
	(THOUSANDS OF DOLLARS)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,989	$ 6,507
Adjustments to reconcile net income to net cash provided by operating activities		
Undistributed equity in operating earnings of unconsolidated affiliates	(12,957)	204
Depreciation and amortization	4,544	4,161
Deferred income taxes and investment tax credits	2,946	(2,117)
Cash provided (used) by changes in certain working capital items		
Accounts receivable	(13,951)	74
Accounts receivable-affiliates	2,105	3,499
Accrued income taxes	8,790	(10,098)
Inventory	(172)	(590)

Prepayments and other current assets	2,264	635
Accounts payable-trade	(2,161)	(3,146)
Accounts payable-affiliates	--	2,075
Accrued property and sales taxes	40	341
Accrued salaried, benefits and related costs	887	(128)
Accrued interest	(2,856)	--
Other current liabilities	1,213	2,534
Cash (used) by changes in other assets and liabilities	2,469	(605)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,150	3,346
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in projects	(279,127)	(48,173)
Changes in notes receivable	(35,809)	(97,620)
Capital expenditures	(15,077)	(4,871)
Decrease (increase) in restricted cash	17,341	(9,720)
Cash distribution from project termination settlement	--	15,671
Cash from sale of project investment	6,724	--
Currency translation	(18,444)	--
Other, net	(946)	--
NET CASH USED BY INVESTING ACTIVITIES	(325,338)	(144,713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from parent	81,467	25,011
Proceeds from issuance of long-term debt	250,325	122,671
Principal payments on long-term debt	(1,227)	(1,146)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	330,565	146,536
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,377	5,169
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,438	7,039
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 22,815	$ 12,208

See accompanying notes

NRG ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

NRG Energy, Inc. (the Company), a Delaware Corporation, was incorporated on May 29, 1992, as a wholly-owned subsidiary of Northern States Power Company (NSP). Beginning in 1989, the Company was doing business through its predecessor companies, NRG Energy, Inc. and NRG Group, Inc., Minnesota corporations which were merged into the Company subsequent to its incorporation. The Company and its subsidiaries and affiliates develop, build, acquire, own and operate nonregulated energy-related businesses.

In the opinion of management, the unaudited interim consolidated financial information of the Company contains all adjustments, consisting of only those of a recurring nature, necessary to present fairly the Company's financial position and results of operations. All significant inter-company accounts, transactions, and profits have been eliminated. These financial statements are for interim periods and do not include all information normally provided in annual financial statements and notes thereto for the year ended December 31, 1996 and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 1996, contained in the Company's 1996 Annual Report. The results of operation for the interim periods are not necessarily indicative of the results that may be expected for the full year.

2. RESTRICTED CASH

Restricted cash consists primarily of cash collateral required in connection with foreign currency hedging activities and cash collateral for letters of credit issued in relation to project development activities. At June 30, 1997, the required levels of restricted cash were lower than the same period in 1996 due to the change in the market value of the Company's exchange swaps and the posting of an $8 million letter of credit which replaced the collateral requirement.

3. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment at June 30 were as follows:

	1997	1996
	(THOUSANDS OF DOLLARS)	
Facilities and equipment, including construction work in progress of $16,809 and $10,529	$201,681	$167,813
Land and improvements	10,397	10,397
Office furnishings and equipment	3,720	2,828
Total property, plant and equipment	215,798	181,038
Accumulated depreciation	(74,739)	(67,649)
Net property, plant and equipment	$141,059	$113,389

The primary contributors to the increased facilities and equipment is due to increased work in process at NEO for the construction of its landfill gas projects ($17 million), and investments in NRG's thermal projects ($10 million).

4. BUSINESS ACQUISITIONS

On February 6, 1997, NRG signed a subscription agreement with Energy Development Limited (EDL) to acquire up to 20% of common stock , and an additional 15% of preference shares at AUS$2.20

4. BUSINESS ACQUISITIONS (CONTINUED)

per share. EDL is an Australian company engaged exclusively in independent power generation from landfill gas, coal seam methane and natural gas (including latest technology combined cycle projects). EDL is the largest generator of power from coal seam methane in the world. The company currently operates over 200 MW of generation across five states and territories in of Australia and has commenced the development of new projects in the United Kingdom, Asia and New Zealand. On February 11, 1997 NRG made an initial purchase of 7.2% (4.5 million shares) of common stock for AUS$9.9 million (US$7.9 million).

On December 19, 1996 NRG and Nordic Power Invest AB purchased 96.6% of Bolivian Power Company Limited. NRG's ownership percentage is 58%, however, it is NRG's intent to reduce its holdings to 50% or less.

In May 1997, the Company acquired a 25.37% interest in Loy Yang A for approximately $257 million. Loy Yang A is a 2,000 MW brown coal fired thermal power station and adjacent coal mine located in Victoria, Australia which the State of Victoria sold as part of its privatization program. The power station has four generating units, each with a 500 MW boiler and turbo generator, which commenced commercial operation between July 1984 and December 1988. In addition, the Company through its Loy Yang affiliate manages the common infrastructure facilities that are located on the Loy Yang site, the adjacent Loy Yang B 1,000 MW power station and several other nearby power stations.

5. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	1997	1996
	(THOUSANDS OF DOLLARS)	
NRG Energy Center, Inc. Senior Secured Notes Series due June 15, 2013, 7.31%	$ 75,759	$ 78,180
Note payable to NSP, due December 1, 1995-2006 5.40%-6.75%	8,405	8,958
NRG Sunnyside, Inc. note payable, due December 31, 1997 10.00%	1,750	1,750
NRG San Diego, Inc., due June 25, 2003 8.0%	2,700	--
NRG Energy Senior Notes, due February 1, 2006 7.625%	125,000	125,000
NRG Energy Senior Notes, due 2007 7.5%	250,000	--
	463,614	213,888
Less current maturities	(5,312)	(3,848)
Total	$458,302	$210,040

The NRG Energy Center, Inc. notes are secured principally by long-term assets of the Minneapolis Energy Center (MEC). In accordance with the terms of the note agreements, MEC is required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of MEC assets, and affiliate transactions. MEC was in compliance with these covenants at March 31, 1997.

The note payable to NSP relates to long-term debt assumed by the Company in connection with the transfer of ownership of an RDF processing plant by NSP to the Company in 1993.

The NRG Sunnyside, Inc. note payable was issued in connection with the purchase of an equity interest in a waste-coal project in 1994.

5. LONG-TERM DEBT (Continued)

The NRG Energy Senior Notes due 2006, were issued in January 1996, are unsecured and require semi-annual interest payments on February 1 and August 1.

The NRG Energy Center Notes due 2007 were issued in June 1997, are unsecured and require semi-annual interest payments on June 15 and December 15.

The NRG San Diego, Inc. Note was issued in June 1997 in conjunction with the acquisition of San Diego Power and Cooling Company.

Annual maturities of long-term debt for the years ending after June 30, 1997 are as follows:

	(THOUSANDS OF DOLLARS)
1997 remaining	$ 5,312
1998	3,903
1999	4,149
2000	4,409
2001	4,728
2002	5,023
Thereafter	436,090
Total	$463,614

6. INCOME TAXES

NRG and its parent, NSP, have entered into a federal and state income tax sharing agreement relative to the filing of consolidated federal and state income tax returns. The agreement provides, among other things, that (1) if NRG, along with its subsidiaries, is in a taxable income position, NRG will be currently charged with an amount equivalent to its federal and state income tax computed as if the group had actually filed separate federal and state returns, and (2) if NRG, along with its subsidiaries, is in a tax loss position, NRG will be currently reimbursed to the extent its combined losses are utilized in a consolidated return, and (3) if NRG, along with its subsidiaries, generates tax credits, NRG will be currently reimbursed to the extent its tax credits are utilized in a consolidated return.

7. ADDITIONAL PAID IN CAPITAL

NSP provided NRG with additional capital contributions of $80 million in December 1996 (for use in the Cobee acquisition), $20 million in February 1997 (for investment in various projects including EDL), and $60.9 in May 1997 (for the Loy Yang acquisition).

NRG ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME

The unaudited pro forma condensed financial data set forth below give effect to (i) the acquisition by NRG of a 25.37% equity interest in Loy Yang

A and the financing thereof and (ii) the offering of the Old Notes (the "Offering"). The pro forma statement of income data for the year ended December 31, 1996 and the six months ended June 30, 1997 give effect to such transactions as if they had occurred at the beginning of the periods presented. As the Loy Yang acquisition and the Offering were consummated prior to June 30, 1997, no pro forma balance sheet data is provided. The pro forma condensed financial data do not purport to be indicative of the combined financial position or results of operations of future periods or indicative of the results that would have occurred had the transactions referred to above been consummated on the dates indicated. The following data should be read in conjunction with, and are qualified in their entirety by, the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

	YEAR ENDED DECEMBER 31, 1996	ADJUSTMENTS		PRO FORMA YEAR ENDED DECEMBER 31, 1996
	(THOUSANDS OF DOLLARS)			
Operating Revenues:				
Revenues from wholly-owned operations	$ 71,649	$ --		$ 71,649
Equity in operating earnings of unconsolidated affiliates	32,815	9,460	(1)	42,275
Total operating revenues	104,464	9,460		113,924
Operating Costs and Expenses:				
Cost of operations--wholly-owned operations	36,562	--		36,562
Depreciation and amortization	8,378	--		8,378
General, administrative, and development	39,248	--		39,248
Total operating costs and expenses	84,188			84,188
Operating Income	20,276	9,460		29,736
Other Income (Expense):				
Other income, net	9,477	--		9,477
Interest expense	(15,430)	(18,750)	(2)	(34,180)
Total other income (expense)	(5,953)	(18,750)		(24,703)
Income before Income Taxes (Benefit)	14,323	(9,290)		5,033
Income Taxes	(5,655)	(4,373)	(3)	(10,028)
Net Income	$ 19,978	$ (4,917)		$ 15,061

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(1) Represents estimated equity earnings from Loy Yang project for twelve months based upon historical data adjusted for differences due to acquisition accounting primarily depreciation charges, finance charges and adjustments to income tax expense.

(2) Amount represents accrued interest on $250 million principal amount of the Old Notes for twelve months at a rate of 7.5% per annum.

(3) Net tax benefit derived from interest expense on the Old Notes.

NRG ENERGY, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME

	SIX MONTHS ENDED JUNE 30, 1997	ADJUSTMENTS		PRO FORMA SIX MONTHS ENDED JUNE 30, 1997
	(THOUSANDS OF DOLLARS)			
Operating Revenues:				
Revenues from wholly-owned operations	$ 42,685	$ --		$ 42,685
Equity in operating earnings of unconsolidated affiliates	13,846	410	(1)	14,256
Total operating revenues	56,531	410		59,941
Operating Costs and Expenses				
Cost of operations--wholly-owned operations	22,696	--		22,696
Depreciation and amortization	4,544	--		4,544
General, administrative, and development	18,039	--		18,039
Total operating costs and expenses	45,279	--		45,279
Operating Income	11,252	410		11,662
Other Income (Expense)				
Other income, net	6,267	--		6,267
Interest expense	(11,182)	(6,883)	(2)	(18,065)
Total other income (expense)	(4,915)	(6,883)		(11,798)
Income before Income Taxes	6,337	(6,473)		136
Income Taxes	(5,652)	(1,605)	(3)	(7,257)
Net Income	$ 11,989	$ (4,868)		$ 7,121

- ---

(1) Represents estimated equity earnings from Loy Yang project until May 14, 1997 based upon historical data adjusted for differences due to acquisition accounting primarily depreciation charges, finance charges and adjustments to income tax expense. Equity earnings of Loy Yang A from May 15 until June 30 were $1,061. This amount is summarized in the Historical column of Equity in earnings of unconsolidated affiliates.

(2) Represents accrued interest on $250 million principal amount of the Old Notes until May 14 at a rate of 7.5% per annum. Interest of $2,414 on the Old Notes from May 15 until June 30 is in the Historical column.

(3) Net tax benefit derived from expense on the Old Notes.

TO THE SHAREHOLDERS OF SUNSHINE STATE POWER BV

AUDITORS' REPORT

We have audited the accompanying balance sheet of Sunshine State Power BV as of December 31, 1996, 1995 and 1994, and the related statements of income and of cash flows for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes

examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 1996, 1995 and 1994 and of the results for the years then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

PRICE WATERHOUSE NEDERLAND BV
March 21, 1997
Amsterdam, Netherlands

SUNSHINE STATE POWER BV
BALANCE SHEET AT DECEMBER 31, 1996, 1995 AND 1994
(BEFORE APPROPRIATION OF THE RESULT FOR THE YEAR)
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

	1996 AUD'000	1995 AUD'000	1994 AUD'000
ASSETS			
FIXED ASSETS			
Intangible fixed assets	8,397	8,868	9,338
Tangible fixed assets	165,173	161,355	153,662
	173,570	170,223	163,000
CURRENT ASSETS			
Stocks	3,536	1,851	1,845
Receivables	4,877	5,835	4,366
Cash and bank balances	11,898	11,460	10,425
	20,311	19,146	16,636
TOTAL ASSETS	193,881	189,369	179,636
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Issued share capital	30	30	30
Retained earnings	15,014	7,712	--
Result for the year	9,133	7,302	7,712
	24,177	15,044	7,742
Provisions	14,618	9,309	4,496
Long-term liabilities	146,817	156,097	158,814
Current liabilities	8,269	8,919	8,584
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	193,881	189,369	179,636

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER BV
STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

	1996 AUD'000	1995 AUD'000	1994 AUD'000
Net turnover			
Queensland Transmission & Supply Corporation ..	31,245	33,250	23,725
Boyne Smelters Limited	21,548	21,378	13,544
TOTAL	52,793	54,628	37,269
Cost of turnover			
Non-fuel	9,179	8,163	6,803
Fuel	14,562	14,851	11,345
TOTAL	23,741	23,014	18,148
GROSS PROFIT ON TURNOVER	29,052	31,614	19,121
Operating expenses	1,719	3,000	741
Depreciation and amortization expense	6,041	5,539	3,854
TOTAL EXPENSES	7,760	8,539	4,595
NET PROFIT ON TURNOVER	21,292	23,075	14,526
Interest expense	10,233	11,100	6,518
Interest income	(770)	(718)	(514)
Foreign exchange (gain)/loss	(2,527)	744	(2,989)
Disposal of assets loss	86	--	
NET FINANCIAL EXPENSE	7,022	11,126	3,015
Result from ordinary operations before taxation	14,270	11,949	11,511
Taxation	5,137	4,647	3,799
NET RESULT	9,133	7,302	7,712

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER BV
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

	1996 AUD'000	1995 AUD'000	1994 AUD'000
Cash flows from operating activities			
Net result	9,133	7,302	7,712
Adjustments to reconcile net result to net cash provided by operating activities:			
Depreciation and amortization	6,041	5,539	3,854
Deferred income taxes	5,137	4,647	3,799
Foreign exchange loss/(gain)	(2,527)	744	(2,989)
Loss on sale of fixed assets.....	86	--	
Changes in operating assets and liabilities:			
Stocks	(1,685)	(6)	484
Receivables	958	(1,469)	(4,338)
Provisions	172	166	125

Current liabilities	(1,088)	(102)	4,546
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	16,227	16,821	13,193
Cash flows from investing activities			
Purchases of tangible fixed assets	(9,495)	(12,762)	(306)
Proceeds from sale of fixed assets	21	--	--
Acquisition of 20% of the Gladstone Power Station	--	--	(168,332)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(9,474)	(12,762)	(168,638)
Cash flows from financing activities			
Proceeds (repayments) of notes payable	(1,840)	1,014	172,933
Proceeds from issuance of share capital			30
Repayments of long-term debt	(4,475)	(4,038)	(7,093)
NET CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES	(6,315)	(3,024)	165,870
NET INCREASE IN CASH AND BANK BALANCES	438	1,035	10,425
Cash and bank balances Beginning of year	11,460	10,425	--
End of year	11,898	11,460	10,425
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	10,382	11,043	5,617

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER BV
NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

1. GENERAL

ACTIVITIES

Sunshine State Power BV (the Company) was incorporated on November 11, 1993. The Company's principal operating activity is the ownership of 20% of the Gladstone Power Station Joint Venture. The Gladstone Power Station Joint Venture owns and operates the Gladstone Power Station located in Queensland, Australia which it acquired on March 30, 1994. The Gladstone Power Station Joint Venture is an unincorporated joint venture and therefore not a separate legal entity. Accordingly, the Gladstone Power Station Joint Venture owners act as tenants in common owning their proportionate shares of the unincorporated joint venture's assets, liabilities and results of operations. The accounts have been prepared for the years ended December 31, 1996, 1995 and 1994.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Unless otherwise stated assets and liabilities are carried at nominal value.

BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in the Netherlands (Netherland GAAP) which may differ in certain respects from generally accepted accounting principles in the United States (US GAAP). With regard to the Company's statements, there are no material differences between Netherlands GAAP and US GAAP.

FOREIGN CURRENCIES

Assets and liabilities at year-end and transactions during the period denominated in a foreign currency are translated into the Company's local currency (Australian $) at the exchange rates ruling at year-end and at the time of the transaction, respectively. Exchange adjustments are taken to the statement of income.

INTANGIBLE FIXED ASSETS

Project Development Expenditures -Project development expenditures represent the Company's share of project development expenditures incurred by the Gladstone Power Station Joint Venture to organize the acquisition of the Gladstone Power Station and operate it subsequent to the acquisition.

Capitalized development expenditures are being amortized over the term of the Gladstone Power Station Power sales agreements (35 years), commencing from the date the investment in the project was consummated. The carrying values of capitalized development expenditures and the amortization periods are reviewed annually and any necessary write down is charged against income. Research expenditures and expenditures on development of existing projects are charged against income in the year in which they are incurred.

Financing Costs -Financing costs represent the Company's share of the costs incurred by the Gladstone Power Station Joint Venture to acquire the long-term debt used to finance the acquisition of the Gladstone Power Station. Capitalized financing costs are being amortized over a ten year period, which represents the timeframe until the Company expects the long-term debt will be refinanced.

TANGIBLE FIXED ASSETS

All tangible fixed assets are stated at cost. The Company has not had any revaluations performed on its tangible fixed assets. Tangible fixed assets, with the exception of land, are depreciated over their estimated useful lives or over the life of the power purchase agreement by the straight line method. Ordinary maintenance and repairs are expensed as incurred; replacements and improvements are capitalized.

The estimated useful lives are:

Site roads and preparation	35 years
Generators, systems, stacks, etc. .	35 years
Coal handling plant	10-35 years
Other operating fixed assets	3-10 years

STOCKS

Stocks are carried at the lower of cost (principally by the FIFO method or another method which approximates FIFO) and net realizable value. In valuing stocks, appropriate allowance is made for obsolete or slow-moving items.

TRADE DEBTORS

(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

Trade debtors are stated at nominal value.

PROVISIONS

Employee Provisions -Provisions are made for amounts expected to be paid to the operator of the Gladstone Power Station in respect of its employees for the pro rata entitlements for long service and annual leave. These amounts are accrued at actual pay rates having regard to experience of employee's departure and period of service. The provisions are divided into current (expected to be paid in the ensuing twelve months) and non-current portions.

Deferred Tax -Provisions for deferred taxes have been set up where items entering into the determination of accounting profit for one period are recognized for taxation purposes in another. The principal difference arises in connection with the depreciation of fixed assets. In calculating the provision, current tax rates are applied. During 1995, Australian income tax rates increased from 33% to 36%. In 1995, the prior year deferred tax balance was increased to reflect the increase in tax rates with the adjustment being recorded in taxation in the statement of income.

COMPANY INCOME TAX

Company income tax is based upon the results reported in the statement of income as adjusted for permanent differences. Current Australian tax rates are applied.

3. INTANGIBLE FIXED ASSETS

The movements in the intangible fixed assets are summarized as follows:

	PROJECT DEVELOPMENT EXPENDITURES AUD'000	FINANCING COSTS AUD'000	TOTAL AUD'000
COST			
Balance at December 31, 1993	--	--	--
Company's share of fixed assets acquired with the Gladstone Power Station acquisition	6,984	2,707	9,691
Balance at December 31, 1994	6,984	2,707	9,691
Additions for the year ended December 31, 1995	--	--	--
Balance at December 31, 1995	6,984	2,707	9,691
Additions for the year ended December 31, 1996	--	--	--
Balance at December 31, 1996	6,984	2,707	9,691
ACCUMULATED AMORTIZATION			
Balance at December 31, 1993	--	--	--
Amortization for the year ended December 31, 1994	(150)	(203)	(353)
Amortization for the year ended December 31, 1995	(199)	(271)	(470)
Amortization for the year ended December 31, 1996	(200)	(271)	(471)
Balance at December 31, 1996	(549)	(745)	(1,294)
Net book value at December 31, 1996	6,435	1,962	8,397

4. TANGIBLE FIXED ASSETS

The movements in the tangible fixed assets are summarized as follows:

	LAND	SITE ROADS AND PREPARATION	GENERATORS, SYSTEMS, STACKS	COAL HANDING PLANT	OTHER OPERATING FIXED ASSETS	TOTAL
	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
COST						
Balance at November 11, 1993	--	--	--	--	--	--
Company's share of assets acquired with Gladstone Power Station acquisition	211	2,443	141,118	6,294	1,613	151,679
Additions	--	--	7	--	299	306
Balance at December 31, 1994	211	2,443	141,125	6,294	1,912	151,985
Additions	--	146	8,943	2,036	721	11,846
Disposals	--	--	(1)	--	(10)	(11)
Balance at December 31, 1995	211	2,589	150,067	8,330	2,623	163,820
Additions	5	209	11,988	1,334	111	13,647
Disposals	--	--	(88)	--	(19)	(107)
Balance at December 31, 1996	216	2,798	161,967	9,664	2,715	177,360
ACCUMULATED DEPRECIATION						
Balance at November 11, 1993	--	--	--	--	--	--
Charge for the period	--	(53)	(2,940)	(331)	(177)	(3,501)
Balance at December 31, 1994	--	(53)	(2,940)	(331)	(177)	(3,501)
Charge for the year	--	(72)	(4,304)	(452)	(353)	(5,181)
Balance at December 31, 1995	--	(125)	(7,244)	(783)	(530)	(8,682)
Charge for the year	--	(79)	(4,497)	(601)	(393)	(5,570)
Balance at December 31, 1996	--	(204)	(11,741)	(1,384)	(923)	(14,252)
Net book value at December 31, 1996	216	2,594	150,226	8,280	1,792	163,108
Construction in progress at December 31, 1996 (construction in progress at December 31, 1995 and 1994 was $6,217 and $5,178, respectively)						2,065
Net tangible fixed assets at December 31, 1996						165,173

5. STOCKS

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Coal	2,318	656	774
Fuel oils	154	202	120
Chemicals	12	13	26
Spares and consumables	1,052	980	925
	3,536	1,851	1,845

SUNSHINE STATE POWER BV
NOTES TO THE ANNUAL ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994 -- (CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

6. RECEIVABLES

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Trade debtors	4,605	5,501	4,003
Prepayments ..	272	334	363
	4,877	5,835	4,366

All receivables are due in less than one year.

7. CASH AND BANK BALANCES

All cash and bank balances are held by banks and include investments with maturities of three months or less which are readily convertible to cash. The Company's long-term debt agreement places restrictions on the amount of cash and bank balances which must be maintained. At December 31, 1996, 1995 and 1994, the restricted cash and bank balances totaled $7,000,000, $7,500,000 and $6,300,000, respectively.

8. ISSUED SHARE CAPITAL

The authorized share capital consists of 2 000 shares each having a nominal value of 30 Australian dollars (40 Dutch Guilders), of which 1 000 shares have been issued and fully paid up at December 31, 1996 and 1995. The Company's shares are owned by NRGenerating International BV (990) and Gunwale BV (10). Both NRGenerating International BV and Gunwale BV are wholly owned by NRG Energy, Inc., which is incorporated in the United States of America.

9. RETAINED EARNINGS

	1996	1995
	AUD'000	AUD'000
Balance at January 1	7,712	--
Appropriation of prior years result	7,302	7,712
Balance at December 31	15,014	7,712

10. RESULT FOR THE PERIOD

	AUD'000
Balance at November 11, 1993	--
Net result for the period ended December 31, 1994	7,712
1994 net result appropriated to retained earnings	(7,712)
Net result for the year ended December 31, 1995 ..	7,302
1995 net result appropriated to retained earnings	(7,302)
Net result for the year ended December 31, 1996 ..	9,133
Balance at December 31, 1996	9,133

(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

11. PROVISIONS

	EMPLOYEE PROVISIONS	DEFERRED TAX	TOTAL
	AUD'000	AUD'000	AUD'000
Balance at November 11, 1993	--	--	--
Company's share assumed with the Gladstone Power Station acquisition	572	--	572
Charged/(released) to income	125	3,799	3,924
Balance at December 31, 1994	697	3,799	4,496
Charged/(released) to income	166	4,647	4,813
Balance at December 31, 1995	863	8,446	9,309
Charged/(released) to income	172	5,137	5,309
Balance at December 31, 1996	1,035	13,583	14,618

Approximately $ 618 (AUD'000) of the employee provisions are current and expected to be paid during 1997.

12. LONG-TERM LIABILITIES

Secured long-term debt due to third parties

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Secured -with banks .	108,821	113,733	118,208

Current installments of bank long-term debt are included under current liabilities. The interest rate for long-term debt is variable based on an average of the bid rates quoted by the banks plus a margin of 1.4% at December 31, 1996.

The bank long-term debt is repayable as follows (in AUD'000):

1997	4,913
1998	5,437
1999	5,975
2000	6,600
2001	7,275

(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

Thereafter ..	83,534
	113,734

The bank long-term debt is secured by the Company's ownership interest in the Gladstone Power Station Joint Venture.

Unsecured Subordinated Notes Payable (AUD'000)

On March 25, 1994 the Company received loans from NRGenerating International BV and Gunwale BV, the primary shareholders of the Company, in the amounts of $ 48,312 and $488 respectively. The notes payable are subordinated to all other liabilities of the Company, bear no interest and are to be repaid in U.S. dollars. During 1996, the Company repaid $1,822 and $18 to NRGenerating International BV and Gunwale BV, respectively. There were no repayments made during 1995. During 1994, the Company repaid $5,152 and $53 to NRGenerating International BV and Gunwale BV, respectively.

Repayments on the notes payable are at the discretion of the Company, unless certain events of termination occur, as defined, and then the entire balance of the notes becomes due. The note balances, as adjusted for current period activity and foreign exchange fluctuations, were $37,616 and $380 to NRGenerating International BV and Gunwale BV at December 31, 1996, respectively and $41,940 and $424 to NRGenerating International BV and Gunwale BV at December 31, 1995, respectively.

13. CURRENT LIABILITIES

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Current installments of bank long-term debt	4,913	4,475	4,038
Trade creditors/suppliers	776	1,579	1,370
Accrued coal/rail costs	1,152	1,712	1,984
Accrued interest	800	959	901
Other accrued expenses	628	194	291
	8,269	8,919	8,584

14. RELATED PARTIES

An affiliate of the Company, Sunshine State Power (No. 2) BV owns 17.5% of the Gladstone Power Station Joint Venture. Sunshine State Power (No. 2) BV is owned by the owners of the Company.

The Gladstone Power Station is operated by NRG Gladstone Operating Services Ply Ltd, which is ultimately a wholly-owned subsidiary of NRG Energy Inc. NRG Gladstone Operating Services Ply Ltd operates the Gladstone Power Station under the terms of the Operation and Maintenance Agreement with the Gladstone Power Station Joint Venture. During the periods ended December 31, 1996, 1995 and 1994, the Company paid NRG Gladstone Operating Services Pty Ltd approximately $288, $331 and $194 (AUD'000) respectively in operators fees under the terms of the Operation and Maintenance Agreement.

15. NUMBER OF EMPLOYEES

The average number of persons employed at the Gladstone Power Station during 1966 was approximately 471. These individuals are primarily employed in the operations and maintenance areas of the station. The Company is responsible for 20% of the related costs for these employees. The Company itself has no employees.

16. REMUNERATION OF DIRECTORS

During the periods ended December 31, 1996, 1995 and 1994, none of the directors received remuneration for their services as directors of the Company.

TO THE SHAREHOLDERS OF SUNSHINE STATE POWER (NO. 2) BV
AUDITORS' REPORT

We have audited the accompanying balance sheet of Sunshine State Power (No. 2) BV as of December 31, 1996, 1995 and 1994, and the related statements of income and of cash flows for each of the years in the three year period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 1996, 1995 and 1994 and of the results for the years then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

PRICE WATERHOUSE NEDERLAND BV
March 21, 1997
Amsterdam, Netherlands

SUNSHINE STATE POWER (NO. 2) BV
BALANCE SHEET AT DECEMBER 31, 1996, 1995 AND 1994
(BEFORE APPROPRIATION OF THE RESULT FOR THE YEAR)
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

	1996 AUD'000	1995 AUD'000	1994 AUD'000
ASSETS			
FIXED ASSETS			

Intangible fixed assets	7,348	7,759	8,171
Tangible fixed assets.....	144,524	141,183	134,452
	151,872	148,942	142,623
CURRENT ASSETS			
Stocks	3,093	1,620	1,614
Receivables	4,267	5,106	3,869
Cash and bank balances	10,416	9,953	9,055
	17,776	16,679	14,538
TOTAL ASSETS	169,648	165,621	157,161
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Issued share capital	30	30	30
Retained earnings	13,158	6,748	--
Result for the year	7,950	6,410	6,748
	21,138	13,188	6,778
Provisions	12,779	8,155	3,933
Long-term liabilities	128,472	136,515	138,939
Current liabilities	7,259	7,763	7,511
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	169,648	165,621	157,161

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER (NO. 2) BV
STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
AND PERIOD ENDED DECEMBER 31, 1994
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

	1996 AUD'000	1995 AUD'000	1994 AUD'000
Net turnover			
Queensland Electricity Commission	27,340	29,094	20,759
Boyne Smelters Limited	18,854	18,706	11,851
TOTAL	46,194	47,800	32,610
Cost of turnover			
Non-fuel	8,031	7,143	5,953
Fuel	12,742	12,995	9,926
TOTAL	20,773	20,138	15,879
GROSS PROFIT ON TURNOVER	25,421	27,662	16,731
Operating expenses	1,509	2,632	646
Depreciation and amortization expense	5,285	4,846	3,373
TOTAL EXPENSES	6,794	7,478	4,019
NET PROFIT ON TURNOVER	18,627	20,184	12,712
Interest expense	8,954	9,713	5,704
Interest income	(668)	(626)	(449)
Foreign exchange (gain)/loss	(2,157)	609	(2,614)

Disposal of assets loss	76	--	
NET FINANCIAL EXPENSE	6,205	9,696	2,641
Result from ordinary operations before taxation	12,422	10,488	10,071
Taxation	4,472	4,078	3,323
NET RESULT	7,950	6,410	6,748

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER (NO. 2) BV
STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995
AND PERIOD ENDED DECEMBER 31, 1994
(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

	1996 AUD'000	1995 AUD'000	1994 AUD'000
Cash flows from operating activities			
Net result	7,950	6,410	6,748
Adjustments to reconcile net result to net cash provided by operating activities:			
Depreciation and amortization	5,285	4,846	3,373
Deferred income taxes	4,472	4,078	3,323
Foreign exchange loss/(gain)	(2,157)	609	(2,614)
Loss on sale of fixed assets	76	--	
Changes in operating assets and liabilities:			
Stocks	(1,473)	(6)	423
Receivables	839	(1,237)	(3,845)
Provisions	152	144	110
Current liabilities	(886)	(131)	3,978
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	14,258	14,713	11,496
Cash flows from investing activities:			
Purchases of tangible fixed assets	(8,308)	(11,165)	(268)
Proceeds from sale of fixed assets	17	--	--
Acquisition of 20% of the Gladstone Power Station	--	--	(147,288)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(8,291)	(11,165)	(147,556)
Cash flows from financing activities:			
Proceeds (repayments) of notes payable	(1,588)	883	151,316
Proceeds from issuance of share capital			30
Repayments of long-term debt	(3,916)	(3,533)	(6,231)
NET CASH FLOWS (USED) BY FINANCING ACTIVITIES	(5,504)	(2,650)	145,115
NET INCREASE IN CASH AND BANK BALANCES	463	898	9,055
Cash and bank balances			
Beginning of year	9,953	9,055	--
End of year	10,416	9,953	9,055
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	9,084	9,667	4,916

The accompanying notes form an integral part of the annual accounts.

SUNSHINE STATE POWER (NO. 2) BV
NOTES TO THE ANNUAL ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 1996
AND 1995 AND PERIOD ENDED DECEMBER 31, 1994

(AMOUNTS EXPRESSED IN THOUSANDS OF AUSTRALIAN DOLLARS)

1. GENERAL

ACTIVITIES

Sunshine State Power (No. 2) BV (the Company) was incorporated on February 24, 1994. The Company's principal operating activity is the ownership of 17.5% of the Gladstone Power Station Joint Venture. The Gladstone Power Station Joint Venture owns and operates the Gladstone Power Station located in Queensland, Australia, which it acquired on March 30, 1994. The Gladstone Power Station Joint Venture is an unincorporated joint venture and therefore not a separate legal entity. Accordingly, the Gladstone Power Station Joint Venture owners act as tenants in common owning their proportionate shares of the unincorporated joint venture's assets, liabilities and results of operations. The accounts have been prepared for the years ended December 31, 1996 and 1995 and period ended December 31, 1994.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Unless otherwise stated assets and liabilities are carried at nominal value.

BASIS OF PREPARATION

The Company's financial statements have been prepared in accordance with generally accepted accounting principles in the Netherlands (Netherland GAAP) which may differ in certain respects from generally accepted accounting principles in the United States (US GAAP). With regard to the Company's statements, there are no material differences between Netherlands GAAP and US GAAP.

FOREIGN CURRENCIES

Assets and liabilities at year-end and transactions during the period denominated in a foreign currency are translated into the Company's local currency (Australian $) at the exchange rates ruling at year-end and at the time of the transaction, respectively. Exchange adjustments are taken to the statement of income.

INTANGIBLE FIXED ASSETS

Project development expenditures -Project development expenditures represent the Company's share of project development expenditures incurred by the Gladstone Power Station Joint Venture to organize the acquisition of the Gladstone Power Station and operate it subsequent to the acquisition.

Capitalized development expenditures are being amortized over the term of the Gladstone Power Station Power sales agreements (35 years), commencing from the date the investment in the project was consummated. The carrying values of capitalized development expenditures and the amortization periods are reviewed annually and any necessary write down is charged against income. Research expenditures and expenditures on development of existing projects are charged against income in the year in which they are incurred.

Financing costs -Financing costs represent the Company's share of the costs incurred by the Gladstone Power Station Joint Venture to acquire the long-term debt used to finance the acquisition of the Gladstone Power Station. Capitalized financing costs are being amortized over a ten year period, which represents the timeframe until the Company expects the long-term debt will be refinanced.

TANGIBLE FIXED ASSETS

All tangible fixed assets are stated at cost. The Company has not had any revaluations performed on its tangible fixed assets. Tangible fixed assets, with the exception of land, are depreciated over their estimated useful lives by the straight line method. Ordinary maintenance and repairs are expensed as incurred; replacements and improvements are capitalized.

The estimated useful lives are:

Site roads and preparation	35 years
Generators, systems, stacks, etc.	35 years
Coal handling plant	10-35 years
Other operating fixed assets	3-10 years

STOCKS

Stocks are carried at the lower of cost (principally by the FIFO method or another method which approximates FIFO) and net realizable value. In valuing stocks, appropriate allowance is made for obsolete or slow-moving items.

TRADE DEBTORS

Trade debtors are stated at nominal value.

PROVISIONS

Employee provisions -Provisions are made for amounts expected to be paid to the operator of the Gladstone Power Station in respect of its employees for the pro rata entitlements for long service and annual leave. These amounts are accrued at actual pay rates having regard to experience of employee's departure and period of service. The provisions are divided into current (expected to be paid in the ensuing twelve months) and non-current portions.

Deferred tax -Provisions for deferred taxes have been set up where items entering into the determination of accounting profit for one period are recognized for taxation purposes in another. The principal difference arises in connection with the depreciation of fixed assets. In calculating the provision, current tax rates are applied. During 1995 Australian income tax rates increased from 33% to 36%. In 1995 the prior year deferred tax balance was increased to reflect the increase in tax rates with the adjustment being recorded in taxation in the statement of income.

COMPANY INCOME TAX

Company income tax is based upon the results reported in the statement of income as adjusted for permanent differences. Current Australian tax rates are applied.

3. INTANGIBLE FIXED ASSETS

The movements in the intangible fixed assets are summarized as follows:

	PROJECT DEVELOPMENT EXPENDITURES	FINANCING COSTS	TOTAL
	AUD'000	AUD'000	AUD'000
COST			
Balance at February 24, 1994	--	--	--
Company's share of fixed assets acquired with Gladstone Power Station acquisition	6,111	2,369	8,480
Balance at December 31, 1994	6,111	2,369	8,480
Additions for the year ended December 31, 1995	--	--	--
Balance at December 31, 1995	6,111	2,369	8,480
Additions for the year ended December 31, 1996	--	--	--
Balance at December 31, 1996	6,111	2,369	8,480
ACCUMULATED AMORTIZATION			
Balance at February 24, 1994	--	--	--
Amortization for the period ended December 31, 1994	(131)	(178)	(309)
Amortization for the year ended December 31, 1995	(175)	(237)	(412)
Amortization for the year ended December 31, 1996	(174)	(237)	(411)
Balance at December 31, 1996	(480)	(652)	(1,132)
Net book value at December 31, 1996	5,631	1,717	7,348

4. TANGIBLE FIXED ASSETS

The movements in the tangible fixed assets are summarized as follows:

	LAND	SITE ROADS AND PREPARATION	GENERATORS, SYSTEMS, STACKS	COAL HANDLING PLANT	OTHER OPERATING FIXED ASSETS	TOTAL
	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
COST						
Balance at February 24, 1994	--	--	--	--	--	--
Company's share of assets acquired with Gladstone Power Station acquisition	184	2,138	123,476	5,508	1,411	132,717
Other additions	--	--	6	--	262	268
Balance at December 31, 1994	184	2,138	123,482	5,508	1,673	132,985
Additions	--	128	7,827	1,781	631	10,367
Disposals	--	--	(1)	--	(9)	(10)
Balance at December 31, 1995	184	2,266	131,308	7,289	2,295	143,342
Additions	5	182	10,489	1,168	97	11,941
Disposals	--	--	(77)	--	(16)	(93)
Balance at December 31, 1996	189	2,448	141,720	8,457	2,376	155,190
ACCUMULATED DEPRECIATION						
Balance at February 24, 1994		--	--	--	--	--
Charge for the period		(46)	(2,571)	(292)	(155)	(3,064)
Balance at December 31, 1994		(46)	(2,571)	(292)	(155)	(3,064)
Charge for the year		(63)	(3,767)	(396)	(309)	(4,535)
Balance at December 31, 1995		(109)	(6,338)	(688)	(464)	(7,599)
Charge for the year		(69)	(3,935)	(526)	(344)	(4,874)
Balance at December 31, 1996		(178)	(10,273)	(1,214)	(808)	(12,473)

Net book value at December 31, 1996	189	2,270	131,447	7,243	1,568	142,717
Construction in progress at December 31, 1996 (construction in progress at December 31, 1995 and 1994 was $5,440 and $4,531, respectively)						1,807
Net tangible fixed assets at December 31, 1996						144,524

5. STOCKS

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Coal	2,028	574	678
Fuel oils	135	177	105
Chemicals	10	11	23
Spares and consumables	920	858	808
	3,093	1,620	1,614

6. RECEIVABLES

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Trade debtors	4,030	4,814	3,503
Prepayments ..	237	292	366
	4,267	5,106	3,869

All receivables are due in less than one year.

7. CASH AND BANK BALANCES

All cash and bank balances are held by banks and include investments with maturities of three months or less which are readily convertible to cash. The Company's long-term debt agreement places restrictions on the amount of cash and bank balances which must be maintained. At December 31, 1996, 1995 and 1994, the restricted cash and bank balances totaled $6,100,000, $6,500,000 and $5,500,000, respectively.

8. ISSUED SHARE CAPITAL

The authorized share capital consists of 2,000 shares each having a nominal value of 75 Australian dollars (100 Dutch Guilders), of which 400 shares have been issued and fully paid up at December 31, 1996 and 1995. The Company's shares are owned by NRGenerating International BV (396) and Gunwale BV (4). Both NRGenerating International BV and Gunwale BV are wholly owned by

NRG Energy, Inc., which is incorporated in the United States of America.

9. RETAINED EARNINGS

	1996	1995
	AUD'000	AUD'000
Balance at January 1	6,748	--
Appropriation of prior years result	6,410	6,748
Balance at December 31	13,158	6,748

10. RESULT FOR THE PERIOD

	AUD'000
Balance at February 24, 1994	--
Net result for the period ended December 31, 1994	6,748
1994 net result appropriated to retained earnings	(6,748)
Net result for the year ended December 31, 1995 ..	6,410
1995 net result appropriated to retained earnings	(6,410)
Net result for the year ended December 31, 1996 ..	7,950
Balance at December 31, 1996	7,950

11. PROVISIONS

	EMPLOYEE PROVISIONS	DEFERRED TAX	TOTAL
	AUD'000	AUD'000	AUD'000
Balance at February 24, 1994	--	--	--
Company's share assumed with the Gladstone Power Station acquisition	500	--	500
Charged/(released) to income	110	3,323	3,433
Balance at December 31, 1994	610	3,323	3,933
Charged/(released) to income	144	4,078	4,222
Balance at December 31, 1995	754	7,401	8,155
Charged/(released) to income	152	4,472	4,624
Balance at December 31, 1996	906	11,873	12,779

Approximately $541 (AUD'000) of the employee provisions are current and expected to be paid during 1997.

12. LONG-TERM LIABILITIES

Secured long-term debt due to third parties

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Secured--with banks .	95,218	99,516	103,432

Current installments of bank long-term debt are included under current liabilities. The interest rate for long-term debt is variable based on an average of the bid rates quoted by the banks plus a margin of 1.4% at December 31, 1996.

The bank long-term debt is repayable as follows (in AUD'000):

1997	4,298
1998	4,758
1999	5,228
2000	5,775
2001	6,366
Thereafter ..	73,091
	99,516

The bank long-term debt is secured by the Company's ownership interest in the Gladstone Power Station Joint Venture.

Unsecured subordinated note payable (AUD'000)

On March 25, 1994 the Company received loans from NRGenerating International BV and Gunwale BV, the primary shareholders of the Company, in the amount of $42,273 and $427, respectively. The notes payable are subordinated to all other liabilities of the Company, bear no interest and are to be repaid in US dollars. During 1996, the Company repaid $1,572 and $16 to NRGenerating International BV and Gunwale BV, respectively. There were no repayments made during 1995. During 1994, the

Company repaid $4,533 and $46 to NRGenerating International BV and Gunwale BV, respectively. Repayments on the notes payable are at the discretion of the Company, unless certain events of termination occur, as defined, and then the entire balance of the notes becomes due. The note balances, as adjusted for current period activity and foreign exchange fluctuations, were $32,922 and $332 to NRGenerating International BV and Gunwale BV at December 31, 1996 respectively and $36,629 and $370 to NRGenerating International BV and Gunwale BV at December 31, 1995, respectively.

13. CURRENT LIABILITIES

	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
	AUD'000	AUD'000	AUD'000
Current installments of bank long-term debt	4,298	3,916	3,533
Trade creditors/suppliers	696	1,345	1,199
Accrued coal/rail costs	1,008	1,498	1,736
Accrued interest	700	834	788
Other accrued expenses	557	170	255
	7,259	7,763	7,511

14. RELATED PARTIES

An affiliate of the Company, Sunshine State Power BV owns 20% of the Gladstone Power Station Joint Venture. Sunshine State Power BV is owned by the owners of the Company.

The Gladstone Power Station is operated by NRG Gladstone Operating Services Ply Ltd, which is ultimately a wholly-owned subsidiary of NRG Energy Inc. NRG Gladstone Operating Services Ply Ltd operates the Gladstone Power Station under the terms of the Operation and Maintenance Agreement with the Gladstone Power Station Joint Venture. During the periods ended December 31, 1996, 1995 and 1994, the Company paid NRG Gladstone Operating Services Pty Ltd approximately $252, $289 and $170 (A$S'000) respectively in operators fees under the terms of the Operation and Maintenance Agreement.

15. NUMBER OF EMPLOYEES

The average number of persons employed at the Gladstone Power Station during 1996 was approximately 471. These individuals are primarily employed in the operations and maintenance areas of the station. The Company is responsible for 17.5% of the related costs for these employees. The Company itself has no employees.

16. REMUNERATION OF DIRECTORS

During the periods ended December 31, 1996, 1995 and 1994, none of the directors received remuneration for their services as directors of the Company.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Management Committee of
San Joaquin Valley Energy Partners I, L.P.

We have audited the accompanying balance sheets of San Joaquin Valley Energy Partners I, L.P., a California limited partnership (the Partnership) as of December 31, 1995 and 1994, and the related statements of income, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Joaquin Valley Energy Partners I, L.P. at December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in Note 6 to the financial statements, during 1995, the Partnership entered into an agreement whereby the Partnership's power purchase contracts were transferred back to Pacific Gas & Electric.

/s/ Coopers & Lybrand L.L.P.

Sacramento, California
February 29, 1996

SAN JOAQUIN VALLEY ENERGY PARTNERS I, L.P.
(A CALIFORNIA LIMITED PARTNERSHIP)
BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

	1995	1994
ASSETS		
Current assets:		
Short-term investments	$ 3,756,078	$ --
Restricted cash	--	13,710,534
Receivable from PG&E	52,050,216	--
Accounts receivable	62,318	3,657,340
Fuel inventory	124,029	1,660,162
Receivable from affiliates	28,636	217,748
Other	132,885	225,075
Total current assets	56,154,162	19,470,859
Property, plant, and equipment, net	4,964,030	29,519,412
Organization and debt issue costs, net of accumulated amortization of $828,565 at December 31, 1994	--	1,753,268
Notes receivable from partners and affiliates	--	1,600,000
	$61,118,192	$52,343,539
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities:		
Book overdraft	$ 21,473	$ --
Accounts payable	44,120	1,130,659
Accrued liabilities	8,319,056	1,608,285
Long-term debt, current portion	184,163	5,455,695
Total current liabilities	8,568,812	8,194,639
Long-term debt, net of current portion	414,288	24,077,127
Total liabilities	8,983,100	32,271,766
Commitments (Note 7)		
Partners' equity	52,135,092	20,071,773

	$61,118,192	$52,343,539

The accompanying notes are an integral part of the financial statements.

SAN JOAQUIN VALLEY ENERGY PARTNERS I, L.P.
(A CALIFORNIA LIMITED PARTNERSHIP)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
Revenue:		
Electricity sales	$ 6,107,863	$38,957,267
Costs and expenses:		
Operating	3,814,238	18,879,930
Depreciation and amortization	450,997	2,599,187
General and administrative	198,431	1,134,205
Total costs and expenses	4,463,666	22,613,322
Operating income	1,644,197	16,343,945
Other income (expense):		
Interest and bank agency fees	(525,598)	(2,702,966)
Interest income	541,537	388,481
Other	141,900	3,810
Income before extraordinary item	1,802,036	14,033,270
Extraordinary item (Note 6):		
Net gain on transfer of power purchase contracts	58,468,139	--
Net income	$60,270,175	$14,033,270

The accompanying notes are an integral part of the financial statements.

SAN JOAQUIN VALLEY ENERGY PARTNERS I, L.P.
(A CALIFORNIA LIMITED PARTNERSHIP)
STATEMENTS OF PARTNERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

Partners' equity, December 31, 1993	$ 11,484,304
Net income for the year ended December 31, 1994	14,033,270
Partnership distributions for the year ended December 31, 1994	(5,445,801)
Partners' equity, December 31, 1994	20,071,773
Net income for the year ended December 31, 1995	60,270,175
Partnership distributions for the year ended December 31,	

1995	(28,206,856)
Partners' equity, December 31, 1995	$ 52,135,092

The accompanying notes are an integral part of the financial statements.

SAN JOAQUIN VALLEY ENERGY PARTNERS I, L.P.
(A CALIFORNIA LIMITED PARTNERSHIP)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
Cash flows from operating activities:		
Net income	$ 60,270,175	$ 14,033,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	450,997	2,599,187
Impairment of assets	26,861,778	--
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	3,595,022	(800,190)
Increase in receivable from PG&E	(52,050,216)	--
Decrease in inventory	826,682	164,807
Decrease (increase) in other assets	92,190	(1,373)
Decrease (increase) in due from affiliates	189,112	(16,642)
Decrease in accounts payable	(1,086,539)	(1,163,127)
Increase in accrued liabilities	6,416,097	7,968
Net cash provided by operating activities	45,565,298	14,823,900
Cash flows from investing activities:		
Purchases of property, plant and equipment	--	(2,065,289)
Purchase of short-term investments	(3,756,078)	--
Net cash used in investing activities	(3,756,078)	(2,065,289)
Cash Flows from financing activities:		
Increase in book overdraft	21,473	--
Decrease (increase) in restricted cash	13,710,534	(1,861,694)
Principal payments on long-term debt	(28,934,371)	(5,451,116)
Proceeds from note receivable	1,600,000	--
Partnership distributions	(28,206,856)	(5,445,801)
Net cash used in financing activities	(41,809,220)	(12,758,611)
Net change in cash and cash equivalents	--	--
Cash at beginning of period	--	--
Cash and cash equivalents at December 31	$	$
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 1,633,204	$ 2,566,348

The accompanying notes are an integral part of the financial statements.

SAN JOAQUIN VALLEY ENERGY PARTNERS I, L.P.
(A CALIFORNIA LIMITED PARTNERSHIP)
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATION:

San Joaquin Valley Energy Partners I, L.P. (Partnership), a California limited partnership, was formed on July 31, 1992, to purchase and operate three biomass power plant facilities in Madera and Merced Counties, California.

The Partnership sold electricity to Pacific Gas & Electric (PG&E) until February 28, 1995, when the plants ceased operations in anticipation of the transfer of the Partnership's power purchase agreements (PPA's) back to PG&E.

The General Partners are San Joaquin Valley Energy I, Inc., a California corporation (SJVE I), and Power Partners II, a California general partnership. The Limited Partners are NRG Jackson Valley II, Inc., a California corporation (NRG II); Donovan D. Bohn, an individual; and Volkar/Coombs Partners, a California general partnership (VCP). The Partnership agreement stipulates that the term of the Partnership shall continue for a period ending the earlier of December 31, 2030, or the date on which the Partnership is dissolved by law or by mutual agreement of the Partners.

SJVE I and NRG II are wholly owned subsidiaries of NRG Energy, Inc., a Delaware corporation.

The Partners of Power Partners II are Power Joint Ventures II, Inc., and P&W Ventures II, Inc., both California corporations. VH Energy, L.L.C., an Illinois limited liability company, and Roland S. Coombs, an individual, are the Partners of VCP. Patrick J. Volkar is the sole shareholder of Power Joint Ventures II, Inc., and Roland S. Coombs is the sole shareholder of P&W Ventures II, Inc. Patrick J. Volkar and Sandra A. Hunt are the members of VH Energy, L.L.C.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and all investment instruments purchased with a maturity of three months or less.

Cash and Restricted Cash

At December 31, 1994, cash balances totalling $13,710,534 were restricted as to use under the terms of various agreements. There were no such restrictions at December 31, 1995. The restrictions related to the following:

	1994
Receipt account	$ 8,076,401
Operating account	572,543
Debt service account	4,650,938
Maintenance reserve account	410,652
	$13,710,534

The Partnership invests its cash and restricted cash in time deposits, money market accounts, and short term investment mutual funds, most of which

are not federally insured. The Partnership has not experienced any losses on these deposits.

Accounts Receivable

Management believes that there are no uncollectible accounts receivable; therefore, there is no allowance for doubtful accounts at December 31, 1995.

Fuel Inventory

Fuel inventory consists of unburned fuel char, urban wood waste, wood chips, nut hulls and other biomass, and is stated at the lower of average cost or market.

At December 31, 1995, the Partnership has entered into commitments to sell the entire balance of its inventory recorded as of year end.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, reduced to fair value in 1995. Major additions are capitalized, and repairs and maintenance costs are expensed as incurred. Depreciation of the biomass power plants was calculated on a straight-line basis over the terms of the respective power purchase agreements (PPA's). Depreciation on the other assets was calculated on a straight-line basis over their estimated useful lives, ranging from three to eight years. Depreciation has been suspended effective February 28, 1995. Gains or losses from disposals are reflected in current earnings.

Organization and Debt Issue Costs

Organization and debt issue costs were stated at cost, and were being amortized until 1995 when deemed to be fully impaired and unrealizable, and consequently were written off in connection with the transfer of PPA's back to PG&E.

Impairment of Long-Lived Assets

The Partnership has adopted Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of (SFAS 121), as of December 31, 1995. Under SFAS 121, the Partnership's assets have been impaired as a result of the transfer of power purchase contracts back to PG&E. Accordingly, an impairment loss of $26,861,778, to reduce the carrying value of the assets to their fair value, has been included in the net gain on transfer of PPA. Fair value has been estimated by management using salvage and sales values for similar plants and related components. The amount the Partnership might ultimately realize could differ materially in the near term from the amount assumed in estimating fair value.

Environmental Restoration Costs

The Partnership has estimated the cost of environmental restoration of its plant sites. Estimated costs relate to evaporation ponds and other plant site restoration. Total accrued environmental restoration costs total $4,850,000 at December 31, 1995. The amount the Partnership might ultimately incur could differ materially in the near term from the amount accrued.

Income Taxes

The net income or loss of the Partnership for income tax purposes, along with any associated tax credits, is included in the tax returns of the individual partners. Accordingly, no provision has been made for federal or

state income taxes in the accompanying financial statements.

The allocation of taxable income, gains, losses and credits to the partners is specified in the Partnership agreement.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 those estimates.

3. NOTES RECEIVABLE FROM PARTNERS AND AFFILIATES:

Notes receivable at December 31 consist of:

	1995	1994
Notes receivable from partners and affiliates, floating rate interest (weighted average interest rate 6.88% at December 31, 1994)	$ --	$1,600,000

4. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of the following at December 31:

	1995	1994
Power plants	$4,700,000	$32,898,035
Land	264,030	264,030
Equipment and other	--	932,274
	4,964,030	34,094,339
Less acumulated depreciation	--	(4,574,927)
	$4,964,030	$29,519,412

In accordance with SFAS 121, as a result of the PPA transfer, property, plant and equipment has been written down to its estimated fair value at December 31, 1995.

5. LONG-TERM DEBT:

Long-term debt consists of the following at December 31:

	1995	1994

Note payable to a financial institution, floating-rate interest (weighted average interest rate 6.88% at December 31, 1994)	$ --	$28,746,665
Payable to an unaffiliated partnership, without interest, payable in annual installments of $142,850 through August 1, 1999; uncollateralized	592,138	695,709
Equipment contracts	6,313	90,448
	598,451	29,532,822
Less current portion	(184,163)	(5,455,695)
	$ 414,288	$24,077,127

The Partnership entered into interest rate swap agreements with a notional amount of $28,746,665 at December 31, 1994, to reduce the impact of changes in interest rates on its floating-rate notes payable. These agreements, which effectively capped interest rates, involve the exchange of floating-rate for fixed interest payment obligations and resulted in a weighted average fixed interest rate of 5.87% at December 31, 1994, on the Partnership's floating-rate debt.

The aggregate maturities for the long-term debt are as follows:

DECEMBER 31,	
1996	$184,163
1997	142,850
1998	142,850
1999	128,588
	$598,451

6. POWER PURCHASE CONTRACTS:

The Partnership had agreements (PPA's) to sell Pacific Gas & Electric (PG&E) all electricity produced by the plants through the years 2019-2020. The Partnership also received capacity payments throughout the terms of the PPA's when it operated the plants above specified production levels. The PPA's provided for guaranteed rates ending in years 1998-2000, after which the rates were to be based on PG&E's avoided cost as defined by the PPA's.

During 1994 the Partnership entered into a curtailment agreement with PG&E to limit the output of the power plants during certain off-peak hours. The Partnership received curtailment payments of $1,968,491 and $8,091,462 during 1995 and 1994 respectively.

During 1995, the Partnership entered into negotiations regarding an agreement whereby PG&E would compensate the Partnership to transfer back to PG&E its existing PPA's. Effective February 28, 1995, the Partnership entered into a bridging agreement with PG&E whereby the Partnership shutdown its power plants and received payments while a final agreement was being negotiated to transfer the PPA's back to PG&E. Such bridging payments were then deducted from the total compensation received for the transfer of the PPA's.

The final PPA transfer agreement was finalized on July 10, 1995, and

provided for the transfer of all of the Partnership's rights under the existing PPA's in exchange for total compensation of $99,212,716, $47,162,500 of which was received at closing and through bridging payments, and $52,050,216 of which was received on March 1, 1996.

A net gain on transfer of PPA's of $58,468,139 has been recognized in 1995, and consists of:

Total consideration from PG&E	$99,212,716
Less:	
Impairment of assets	26,861,778
Operating and maintenance costs during bridging period	1,170,291
Loan, agency and prepayment fees	1,960,894
Estimated environmental restoration costs	4,850,000
Severance, fuel contract settlement and other costs	5,901,614
Net gain on transfer of PPA's	$58,468,139

7. COMMITMENTS:

The Partnership has entered into contractual agreements to purchase specified quantities of biomass fuels from various vendors, and the Partnership has agreed to assume a fuel purchase commitment of San Joaquin Valley Energy Partners IV, L.P. (SJVEP IV). The purchase price of the fuels is a specified amount above the market cost per bone dry ton. The periods covered by the contracts range from one to eight years with the longest expiring in the year 1999. Under these contracts, the Partnership purchased fuel totaling $--in 1995 and $8,217,550 in 1994.

Since agreeing to transfer its PPA's back to PG&E, the Partnership has sought to terminate all of its fuel purchase commitments. Management believes the Partnership will not incur any additional loss on termination.

8. EMPLOYEE BENEFIT PLAN:

The Partnership established a 401(k) retirement savings plan (Plan) effective January 1, 1994, that covered all employees. The Partnership contributed approximately $74,000 during 1994 to the Plan. During 1995, the Plan was terminated at no cost to the Partnership.

9. TRANSACTIONS WITH AFFILIATES:

At December 31, 1995 and 1994, the receivable from affiliates related through common ownership consists of:

	1995	1994
Due from affiliates relating to the purchase of Biomass fuel and charges for administration, insurance, and workers' compensation costs, consisting of:		
BioConversion Partners, L.P.	$ 2,648	$ 7,963
San Joaquin Valley Energy Partners IV, L.P. (SJVEP IV)	25,988	37,715
Due from the owners of SJVEP IV relating to interest on notes		

receivable	$ --	$282,221
Due from BioConversion Partners, L.P. relating to the purchase of unburned fuel	--	110,152

The Partnership has an agreement with BioConversion Partners, L.P., (BioConversion) to purchase unburned fuel (Char). The sales price of the char is based on the BTU heat value of the char applied to the average cost per BTU paid by BioConversion for its biomass fuel. The total amount of char purchased by the Partnership was $123,417 and $871,951 in 1995 and 1994, respectively.

The Partnership has an agreement with BioConversion to purchase or sell excess biomass fuel at cost. The total amount of biomass fuel sold to BioConversion was $-0-and $182,601 in 1995 and 1994, respectively. The Partnership purchased excess biomass fuel of $-0-and $138,102 during 1995 and 1994, respectively.

The Partnership has service agreements to provide general and administrative services to BioConversion and SJVEP IV. The total amount of management fees earned in 1995 and 1994 was $42,474 and $34,147 respectively. The Partnership also purchases insurance for BioConversion and SJVEP IV which is then charged back to each of the entities based upon the fair value of their plant assets. The total amount of insurance expense charged to BioConversion was $32,152 and $48,421 and to SJVEP IV was $75,021 and $112,984 in 1995 and 1994, respectively.

The Partnership incurred approximately $26,000 and $43,000 in 1995 and 1994, respectively, for administration and management services provided by Jackson Valley Energy Partners, L.P. (JVEP), a partnership affiliated through common ownership.

The Partnership paid approximately $37,000 in 1994 to a partner for consulting services, of which approximately $31,000 was paid on behalf of JVEP. During 1995, the Partnership received payment in full from JVEP for these services.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents, short term investments, receivable from PG&E and book overdraft approximates fair value because of the short term maturity of these instruments. The carrying amount of long-term debt is not materially different than its estimated fair value based on the fair value of debt with similar terms.

LOY YANG POWER ANNUAL REPORT 1995/96
PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30 JUNE 1996

	NOTES	30 JUNE 1996 $'000	30 JUNE 1995 $'000
OPERATING REVENUE	2	574,009	244,275
Operating Profit before Income Tax	3	185,233	79,579

Income Tax Attributable to Operating Profit	4	67,547	29,861
OPERATING PROFIT AFTER INCOME TAX		117,686	50,618
Retained Profits at beginning of year	13	50,618	0
Dividends Paid or Payable		117,686	0
Retained Profits at End of Year		50,618	50,618

This Profit and Loss Statement should be read in conjunction with the Notes to and forming part of the Financial Statements.

FINANCIAL STATEMENTS 1995/96
BALANCE SHEET AS AT 30 JUNE 1996

	NOTES	30 JUNE 1996 $'000	30 JUNE 1995 $'000
CURRENT ASSETS			
Cash	14.1	658	1,015
Receivables	5	73,048	100,577
Inventories	6	3,560	4,043
Other assets	7	1,715	4,155
TOTAL CURRENT ASSETS		78,981	109,790
NON-CURRENT ASSETS			
Receivables	5	1,575	3,132
Inventories	6	13,176	20,101
Other assets	7	5,663	0
Investments	8	0	128
Property, plant and equipment	9	3,159,102	3,245,997
TOTAL NON-CURRENT ASSETS		3,179,516	3,269,358
TOTAL ASSETS		3,258,497	3,379,148
CURRENT LIABILITIES			
Creditors and borrowings	10	2,039,619	2,113,681
Provisions	11	9,110	15,060
TOTAL CURRENT LIABILITIES		2,048,729	2,128,741
NON-CURRENT LIABILITIES			
Creditors and borrowings	10	1,057,833	1,164,699
Provisions	11	101,317	35,090
TOTAL NON-CURRENT LIABILITIES		1,159,150	1,199,789
TOTAL LIABILITIES		3,207,879	3,328,530
NET ASSETS		50,618	50,618

EQUITY			
Share capital	12	0	0
Retained earnings	13	50,618	50,618
TOTAL EQUITY		50,618	50,618

This Balance Sheet should be read in conjunction with the Notes to and forming part of the Financial Statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 1996

	NOTES	30 JUNE 1996 $'000	30 JUNE 1995 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		661,857	262,004
Payments to suppliers and employees		(252,601)	(98,270)
NET CASH FLOW FROM OPERATING ACTIVITIES	14.2	409,256	163,734
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		(8,356)	(5,447)
Proceeds from sale of property, plant and equipment		34	117
Proceeds from sale of investments		223	0
Dividends received		127	0
Net cash allocated		0	(629)
NET CASH FLOW USED IN INVESTING ACTIVITIES		(7,972)	(5,959)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest and other items of a similar nature received		1,907	832
Interest and other costs of finance paid		(115,063)	(70,817)
Hedging receipts associated with borrowings		20,765	10,980
Hedging payments associated with borrowings		(30,861)	(15,490)
Buyback of swaps		(7,905)	0
Proceeds from borrowings		86,056	49,706
Repayment of borrowings		(36,221)	(47,170)
Buyback of borrowings		(264,282)	(85,458)
Dividends paid		(56,000)	0
NET CASH FLOW USED IN FINANCING ACTIVITIES		(401,604)	(157,417)
NET INCREASE/(DECREASE) IN CASH HELD		(320)	358
CASH AT BEGINNING OF YEAR		358	0
CASH AT END OF YEAR	14.1	38	358

This Statement of Cash Flows should be read in conjunction with the Notes to and forming part of the Financial Statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF ACCOUNTING

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Law which include disclosures required by Schedule S and applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The report is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. The accounting policies are consistent with those of the previous year.

1.2 PRIOR PERIOD COMPARISONS

Loy Yang Power Ltd. was incorporated for the twelve months ended 30 June 1995, however the company did not commence trading in its principal activities until 1 February 1995 when substantially all the assets and liabilities of the business were vested in the company pursuant to an Allocation Statement made under the Electricity Industry (Further Amendment) Act 1994.

As a result, comparative profit and loss and cash flow figures reflect five months trading from 1 February 1995 to 30 June 1995.

Comparative information is reclassified where appropriate, to enhance comparability.

1.3 PROPERTY, PLANT AND EQUIPMENT

COST AND VALUATION
Property, plant and equipment are carried at cost.
DEPRECIATION AND AMORTISATION
Depreciation or amortisation is provided for all fixed assets other than freehold land. The majority of assets are depreciated using the straight line method to write off the cost of assets over their expected service lives. The expenditure associated with mine development costs is amortised on a units of production basis. Depreciation or amortisation for all assets commences on the first day of the month closest to the in-service date.

Changes in depreciation rates and/or depreciable amounts are dealt with on a prospective basis.

1.4 RECOVERABLE AMOUNTS

Non-current assets values do not exceed their recoverable amount. Where carrying values exceed their recoverable amount, assets are revalued downwards to the lower value. The expected net cash flows included in determining the recoverable amounts of non-current assets have been discounted to their present value using a market determined risk adjusted discount rate.

1.5 INVENTORIES

Costs are assigned to inventories using the average cost method. Inventories are valued at lower of cost and net realisable value. As estimate of items which are likely to be utilised in the next twelve months is classified as current.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.6 ACCOUNTING FOR INCOME TAX

Loy Yang Power Ltd. is subject to the Victorian State Government Tax Equivalent System pursuant to Section 88 of the State Owned Enterprises Act 1992.

Loy Yang Power Ltd. has adopted the liability method of tax-effect accounting whereby income tax is regarded as an expense and is managed with the accounting profit after allowing for permanent differences.

To the extent that timing differences occur between the time items are recognised in the accounts and when these are taken into account in determining taxable income, the net related taxation benefit or liability is disclosed as a future income tax benefit or a provision for deferred income tax. These account balances are calculated with reference to the rates of income tax which are expected to apply when those timing differences reverse.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. The future income tax benefit arising from tax losses is only carried forward as an asset when the benefit is virtually certain of being realised.

1.7 DOUBTFUL DEBTS

The value of estimated doubtful debts is reviewed annually on an individual debtor basis, and appropriate provision is made where necessary.

1.8 NEGOTIABLE SECURITIES

Where interest is paid in advance on negotiable securities the interest is recognised as an asset and progressively charged to the Profit and Loss Statement over the applicable interest period. Interest payable in arrears is progressively charged to the Profit and Loss Statement over the applicable interest period and recognised as a liability.

Discounts and premiums on face value on the issue of negotiable securities are recognised as variations of the liability to which they relate. The variations are amortised over the term of the issue, using the effective yield method.

Changes in the capital value of the outstanding liability on index linked securities are recognised as variations in the book value of the liability and are charged to the Profit and Loss Statement.

Any gains or losses arising from the buyback of negotiable securities issued by Loy Yang Power Ltd. are charged to the Profit and Loss Statement as incurred or earned.

1.9 DERIVATIVES

Loy Yang Power Ltd. is exposed to changes in interest rates and commodity prices from its activities. It is Loy Yang Power Ltd.'s policy to use derivative financial instruments to hedge these risks. Loy Yang Power Ltd. does not enter, hold or issue derivative financial instruments for reading or speculative purposes.

Derivative financial instruments include forward rate agreements, futures,

options, interest rate swaps and their Treasury Corporation of Victoria equivalents.

Gains and losses arising from the early termination of general hedges are amortised over the period of the hedge. The exception to this is bond futures where gains and losses are amortised over the average term to maturity of existing fixed debt.

Gains and losses arising from the early termination of specific hedges are amortised over the shorter of the period of the borrowing being hedged or the period of the hedge.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.10 EMPLOYEE ENTITLEMENTS

WAGES, SALARIES AND LEAVE

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and associated oncosts.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of their estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to Federal Government Guaranteed Securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlement expenses are revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements;

are charged to the Profit and Loss Statement on a net basis in their respective categories.

SUPERANNUATION

Loy Yang Power Ltd. contributes towards the Victorian Electricity Industry (VEI) Superannuation Fund on behalf of its employees. These contributions are charged to the Profit and Loss Statement as the liability arises (refer note 17.2).

1.11 PROVISION FOR SITE RESTORATION: POWER STATION AND MINE

Recognition of a liability for the cost of restoring the power station and mine sites to an acceptable environmental standard at the end of their useful lives has been provided for in these accounts (refer notes 11 and 16). This liability includes costs of reclamation, plant closure and dismantling, and waste site closure.

The liability is recognised on a gradual basis and is calculated by discounting the estimated future site restoration costs to their net present value. Annual increments to the liability for each site are charged to the Profit and Loss Statement over the estimated remaining life of each site.

Expected future payments for site restoration are discounted using interest rates attaching, as at the reporting date, to Federal Government Guaranteed Securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Cost estimates are based on the assumption that current legal requirements and/or technologies will not change significantly over the life of the power station and mine sites.

Changes in estimates are dealt with on a prospective basis.

1.12 CASH

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, investments in money market instruments and short-term deposits and securities, net of outstanding overdrafts.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
2 OPERATING REVENUE COMPRISES		
Sales revenue	557,500	238,468
Interest revenue (refer note 25.5)	1,845	637
Proceeds from the sale of non-current assets	587	117
Dividend revenue	127	0
Other revenue	13,950	5,053
	574,009	244,275

3 OPERATING PROFIT

The operating profit before income tax is arrived at after charging/(crediting) the following items:

DEPRECIATION, AMORTISATION AND DIMINUTION		
Plant and equipment	96,219	40,255
Development of mine (amortisation)	1,058	427
Leased plant and equipment (amortisation)	8,678	3,637
Buildings	320	137
Diminution in value of inventories	0	727
TOTAL DEPRECIATION, AMORTISATION AND DIMINUTION	106,275	45,183
AMOUNTS SET ASIDE TO PROVISIONS		
Bad and doubtful debts	0	0
Employee entitlements	4,492	1,170
Site restoration--power station	486	430
Site restoration--mine	247	356
TOTAL AMOUNT SET ASIDE TO PROVISIONS	5,225	1,956
INTEREST EXPENSE (REFER NOTE 25.5)	126,711	59,145

GOVERNMENT MINING ROYALTIES INCURRED	9,242	3,654
ENERGY CONSUMPTION LEVY	30	7
SUPERANNUATION CONTRIBUTIONS	2,697	1,194
RENTAL OPERATING LEASES	419	233
PROFIT/(LOSS) ON SALE OF NON-CURRENT ASSETS	51	(16)
RESEARCH AND DEVELOPMENT EXPENDITURE	519	0

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
4 INCOME TAX		
4.1 INCOME TAX EXPENSE		
The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:		
Prima facie income tax expense calculated at 36% (1995: 33%) on the operating profit	66,684	26,261
Increase in income tax expense due to permanent differences		
Depreciation on buildings	448	281
Tax on provisions not carried forward	621	280
Provisions for restoration--non-deductible	175	142
Entertainment and other non-deductible items	31	444
Decrease in income tax expense due to permanent differences		
Tax exempt income	(293)	0
Research and development concession	(94)	0
General investment allowance	(25)	0
Depreciation on buildings	0	(328)
Add: Restatement of deferred tax balances due to change in income tax rate	0	1,881
TOTAL INCOME TAX EXPENSE ATTRIBUTABLE TO OPERATING PROFIT	67,547	28,961
Total income tax expense is made up of:		
Deferred income tax provision	85,298	51,107
Less: future income tax benefit	17,751	22,146
	67,547	28,961
4.2 ANALYSIS OF TAX BALANCES CARRIED FORWARD		
CURRENT		
Future income tax benefit, balance at end of year	1,019	3,505
Less: provision for deferred income tax, balance at end of year	450	360
NET FUTURE INCOME TAX BENEFIT (REFER NOTE 7)	569	3,145
NON-CURRENT		
Provision for deferred income tax, balance at end of year	135,955	50,747
Less: future income tax benefit, balance at end of year	45,267	25,030
NET PROVISION FOR DEFERRED INCOME TAX (REFER NOTE 11)	90,688	25,717

The future income tax benefit will only be obtained if:
(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(c) no changes in tax legislation adversely affect Loy Yang Power Ltd. in realising the benefit.

5 RECEIVABLES		
CURRENT		
Trade debtors (refer note 25.6)	69,684	97,843
Other debtors (refer note 25.6)	3,364	2,734
	73,048	100,577
NON-CURRENT		
Trade debtors (refer note 25.6)	1,575	3,132

Other debtors (refer note 25.6)	0	0
	1,575	3,132

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE, 1996 $'000	30 JUNE, 1995 $'000
6 INVENTORIES		
CURRENT		
General purpose and maintenance stocks at cost	3,560	4,043
Less: inventory diminution	0	0
	3,560	4,043
NON-CURRENT		
General purpose and maintenance stocks at cost	13,664	20,828
Less: inventory diminution	488	727
	13,176	20,101

A review undertaken during the year identified 57.6 million of items that should correctly be identified as depreciable spares. This amount has been transferred to property, plant and equipment.

7 OTHER ASSETS		
Current		
Prepayments	1,146	1,010
Future income tax benefit (refer note 4.2)	569	3,145
	1,715	4,155
NON-CURRENT		
Unamortized interest rate swap termination losses	4,828	0
Unamortized futures termination losses	835	0
	5,663	0

8 INVESTMENTS		
8.1 NON-CURRENT INVESTMENTS AT COST COMPRISE:		
Unlisted shares	0	128
Unlisted shares in associated companies	0	0
	0	128
8.2 NON-CURRENT INVESTMENTS IN UNLISTED ASSOCIATED COMPANIES		
PowerWorks Pty. Ltd.		
PowerWorks Pty. Ltd's principal activity is to promote the electricity industry to the public		
Ownership interest	33.3%	33.3%
Investment carrying amount	0.1	0.1

The above investment is held by Loy Yang Power Ltd. and is comprised of interest in the ordinary share capital of the associate.

The balance date of the associate is 30 June, and the associate is incorporated in Australia.

There are no material post-balance day events or dissimilar accounting policies.

During the period, unlisted shares held at cost were sold for $223,296

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
9 PROPERTY, PLANT AND EQUIPMENT AT COST		
Land at cost	1,589	1,589
	1,589	1,589
Buildings at cost	8,237	8,237
Less: accumulated depreciation	457	137
	7,780	8,100
Plant and equipment at cost	2,986,003	2,966,792
Less: accumulated depreciation	136,300	40,250
	2,849,703	2,926,542
Plant and equipment under lease at cost (refer note 15.3)	274,988	274,988
Less: accumulated amortisation	12,315	3,637
	262,673	271,351
Mine development at cost	38,842	38,842
Less: accumulated amortisation	1,485	427
	37,357	38,415
Total Fixed Assets at Cost	3,309,659	3,290,448
Total Accumulated Depreciation/Amortisation	150,557	44,451
Total Written Down Amount	3,159,102	3,245,997
10 CREDITORS AND BORROWINGS		
CURRENT		
Trade creditors (refer note 25.6)	35,138	61,047
Bank overdraft (refer note 14.1)	620	657
Shareholder loan*	1,917,492	1,917,492
Interest accrued (refer note 25.6)	23,765	30,819
Dividend payable (refer note 25.6)	61,686	0
Other loans (refer note 20)	49	102,091
Other liabilities (refer note 25.6)	869	1,580
	2,039,619	2,113,681
NON-CURRENT		
Loans (refer note 20)	1,057,833	1,164,699
	1,057,833	1,164,699

There are no guarantees or securities over assets with respect to borrowings.

* In accordance with the Electricity Industry (Further Amendment) Act 1994 section 153F and the Electricity Industry (Amendment) Act 1995 section 153W, the shareholder loan is an amount owing to the State Electricity Commission of Victoria and, whilst the loan holds a legal obligation, it holds no interest payable and no term is specified for repayment. Loy Yang Power Ltd., however, will be making repayments against the shareholder loan in 1996/97.

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
11 PROVISIONS		
CURRENT		
Employee entitlements (refer note 17).....	7,476	7,587
Uninsured losses.....	0	75
Site restoration--mine (refer note 16).....	140	60
Redundancies.....	1,494	7,338
	9,110	15,060
NON-CURRENT		
Employee entitlements (refer note 17).....	5,927	5,219
Site restoration--power station (refer note 16) .	3,734	3,248
Site restoration--mine (refer note 16).....	968	906
Deferred income tax (refer note 4.2).....	90,688	25,717
	101,317	35,090
12 SHARE CAPITAL		
AUTHORISED CAPITAL		
500,000,000 Ordinary Shares of $1.00 each	500,000	500,000
ISSUED AND PAID UP CAPITAL		
15 ordinary shares of $1.00 each, fully paid	0	0
(Balance not shown due to rounding)		
13 RETAINED EARNINGS		
Balance at Beginning of Year.....	50,618	0
Transfer from profit and loss.....	117,686	50,618
Total available for appropriation.....	168,304	50,618
Interim dividend paid.....	56,000	0
Final dividend payable.....	61,686	0
BALANCE AT END OF YEAR.....	50,618	50,618

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
14 STATEMENT OF CASH FLOWS		

14.1 RECONCILIATION OF CASH
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

CASH		
Cash on hand	8	8
Short term deposits and securities	650	1,007
	658	1,015
OVERDRAFT		
Bank overdraft	(620)	(657)
	(620)	(657)
	38	358

Loy Yang Power Ltd. has a bank overdraft facility of $5 million (1995: $10 million) arranged with the National Australia Bank. $4.4 million of the facility is available at 30 June 1996.

14.2 RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating profit after income tax	117,686	50,618
Non-cash revenues and expenses, and revenues and expenses associated with financing or investing activities:		
Depreciation and amortisation expense	106,275	44,456
Income tax expense	67,547	28,961
Interest revenue received	(1,845)	(912)
Finance charges	126,711	59,145
Dividend revenue received	(127)	0
Loss/(profit) on sold and scrapped non-current assets	(51)	16
	298,510	131,666
ADJUST FOR MOVEMENTS IN ASSETS AND LIABILITIES		
Increase/(decrease) in operating expenditure accruals	(30,126)	29,572
Increase/(decrease) in provisions	(4,694)	(8,343)
Increase/(decrease) in trust funds and deposits	(711)	1,308
Decrease/(increase) in accounts receivable/accrued revenue	28,954	(41,753)
Decrease/(increase) in prepayments	(136)	1,474
Decrease/(increase) in inventory	(227)	(808)
	(6,940)	(18,550)
NET CASH PROVIDED BY OPERATING ACTIVITIES	409,256	163,734

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
15 EXPENDITURE COMMITMENTS		
15.1 CAPITAL EXPENDITURE COMMITMENTS		
Outstanding contract commitments for capital expenditure contracted for at balance date but not provided for comprises the following:		
Payable not later than one year	946	596
	946	596
15.2 NON-CAPITAL EXPENDITURE COMMITMENTS		
Outstanding contract commitments for non-capital expenditure contracted for at balance date but not provided for comprises the following:		
Payable not later than one year	6,524	3,938
Payable greater than one and less than two years	1,566	0
	8,090	3,938

15.3 LEASE EXPENDITURE COMMITMENTS

Outstanding operating lease (non-cancellable) commitments at balance date but not provided for comprises the following:		
Payable not later than one year	138	0
Payable greater than one and less than two years	145	0
Payable greater than two and less than five years	169	0
	452	0

Loy Yang Power Ltd. holds $263 million of plant disclosed as leased assets in note 9. The leases for these assets have not yet been novated to Loy Yang Power Ltd., and they remain with the current lessees being either the State Electricity Commission of Victoria or Generation Victoria. As a consequence Loy Yang Power Ltd. has no lease liability in respect to these leases. Loy Yang Power Ltd. and the State Electricity Commission of Victoria are progressing issues to achieve their formal novation to Loy Yang Power Ltd. The lessors have given their conditional consent for Loy Yang Power Ltd. to use the assets until such time as the leases are formally novated.

Included in the above is a lease relating to an individual asset valued at $67.7 million (written down value) which has an expiry date of 31 December 1999 unless not renewed by the lessor with effect from 30 June 1996. The renewal option is yet to be exercised. The lessor's consent for Loy Yang Power Ltd. to use the asset continues.

16 SITE RESTORATION COSTS--POWER STATION AND MINE

Provision for site restoration of the power station and mine sites of $4.8 million has been provided for in the accounts as at 30 June 1996. The total net present value of estimated future cash outflows for site restoration is $26 million.

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
17 EMPLOYEE ENTITLEMENTS		
17.1 AGGREGATE EMPLOYEE ENTITLEMENT		
Wages and salaries	185	219
Recreation leave	6,663	6,176
Long service leave	6,740	6,630
Redundancies	1,494	7,338
	15,082	20,363

The amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring the present values of the entitlements which are not expected to be paid or settled within 12 months of balance date.

LONG SERVICE LEAVE		
Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	2.9%	4.0%
Weighted average discount rates	8.7%	8.8%
Weighted average terms to settlement of the liabilities	11 years	11 years

17.2 SUPERANNUATION FUND

All permanent and directly hired casual employees of Loy Yang Power Ltd. are entitled to benefits on termination from the Victorian Electricity Industry Superannuation Fund. All casual and permanent employees engaged after 3 October 1994 are members of an accumulation fund, Division D or other external accumulation funds. All other permanent employees are members of Division B or C of the Fund which provide defined benefits in the form of pensions (Division B) or lump sums (Division C). Both defined benefit schemes are closed to new members. During July 1995 the company contributed to the Fund at the rate of 10% for the defined benefit schemes, and thereafter at a rate of 9.75%. Contributions in excess of those required by the Superannuation Guarantee Charge Act 1992 (6%) are not legally enforceable.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
17 EMPLOYEE ENTITLEMENTS (CONTINUED)		
17.2 SUPERANNUATION FUND (CONTINUED)		
The effective date of the most recent detailed valuation of the Fund was 30 June 1996. The review was undertaken by William M. Mercer Pty Ltd. Based on that assessment, the situation for the company as at 30 June 1996 was:		
Present value of employees accrued benefits	54,100*	45,800
Net market value of assets held by the fund to meet future benefit payments	54,600*	47,500
Excess/(deficit) of present value of employees' benefits over assets held to meet future benefit payments	500*	1,700
Vested benefits	49,300*	45,700
The present value of employees' accrued benefits is equal to the past membership liability calculated in accordance with Australian Accounting Standard AAS25 "Financial Reporting by Superannuation Plans". (Vested benefits are those benefits which would have been paid on voluntary termination from the Fund.)		
Employer contributions to the fund	2,697	1,194
Additional contributions to the fund to compensate for differences between the resignation and retrenchment benefit, in relation to voluntary retrenchments	1,228	1,140

*Note: Asset and benefit figures are unaudited at the time of signing this report. The last full audit was conducted at 30 June 1995.

18 CONTINGENT EVENTS

18.1 Loy Yang Power Ltd. was allocated its assets and liabilities from Generation Victoria through an allocation statement in accordance with the Electricity Industry (Further Amendment) Act 1994. Under section 153B of this Act, the allocation statement may be amended at any time at the direction of the Victorian Government Treasurer and relevant Minister.

18.2 Upon the disaggregation of the State Electricity Commission of Victoria (SECV) on 3 January 1994, Generation Victoria entered into a contract with the SECV to meet the SECV's obligations under its contracts for the supply of coal and infrastructure services to the Loy Yang B Joint Venture in consideration of receipt of all SECV's revenues under those contracts. Upon the disaggregation of Generation Victoria on 31 January 1995, Generation Victoria's rights and obligations were allocated to Loy Yang Power Ltd.

Under the contract Loy Yang Power Ltd. is directly liable to the SECV to use its "best endeavours", backed by an indemnity in favour of the SECV for performance of these obligations, subject only to force majeure relief. A failure by Loy Yang Power Ltd. to use its "best endeavours" may result in liabilities being imposed on Loy Yang Power

Ltd. At the time of preparation of this report, Loy Yang Power Ltd. is not aware of any breaches of performance obligations on its part.

The SECV remains the contracting party under the contracts with the Loy Yang B Joint Venture.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
19 TREASURY		
19.1 LOY YANG POWER LTD. DERIVATIVES		
Loy Yang Power Ltd.'s derivative products are dealt through Treasury Corporation of Victoria (TCV). The only derivative products outstanding as at 30 June 1996 were Interest Rate Swaps.		
INTEREST RATE SWAPS		
Under these swaps, Loy Yang Power Ltd. agrees with the counterpart to exchange, at specified intervals, the difference between the fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The notional principal amounts are not exchanged by the parties.		
The maturity profile of these swaps in notional principal terms is:		
Later than two years and not later than five years	25,000	33,744
Later than five years	195,000	245,000
	220,000	278,744
The following table indicates the type of swaps held by Loy Yang Power Ltd. and their weighted average interest rates.		
Pay-fixed swaps: notional principal amount	220,000	278,744
Average pay rate: Loy Yang Power Ltd. specific cost	12.6%	12.5%
Average receive rate	7.6%	7.7%
Loy Yang Power Ltd.'s credit exposures on these swaps is nil as the counterpart in each case is TCV.		
VIC INTEREST RATE FORWARDS & VIC HOTSTOCK FORWARDS		
The maturity profile in notional principal amount terms, of these Interest Rate and Hotstock Forwards is:		
Not Later than one year	0	90,000
	0	90,000
Both Vic Interest Rate Forwards and Vic Hotstock Forwards were created by TCV for use by their Participating Authorities following the State Treasurer's instructions that TCV Participating Authorities were to no longer deal in derivative products directly with the financial markets from 1 July 1995.		
Vic Interest Rate Forwards are similar to Bill Futures except that there are no initial and variation margins to be paid by either counterpart. Vic Hotstock Forwards are similar to Bond Futures except the maturity dates are specific to TCV's physical hotstocks.		

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
20 LOANS (refer note 25.6)		
20.1 LOAN COMPONENTS		
CURRENT LOANS		
Premium/(discount) on loans	0	1,782
Fixed interest loans	49	88
Fixed interest bonds	0	100,221
	49	102,091
NON-CURRENT LOANS		
Premium/(discount) on loans	38,899	39,055
Floating rate notes	249,745	334,746
Fixed interest bonds	626,695	654,895
Capital indexed bonds	142,429	135,890
Fixed interest loans	65	113
	1,057,833	1,164,699
	1,057,882	1,266,790
Liabilities in years of maturity, at face value are:		
Not later than one year	49	100,309
Later than one year and not later than two years	353,784	21,249
Later than two years and not later than five years	327,721	813,505
Later than five years	337,429	290,890
	1,018,983	1,225,953
Plus unamortised adjustments to face value (refer note 20.2)	38,899	40,837
	1,057,882	1,266,790
20.2 ADJUSTMENTS TO FACE VALUE OF LOANS		
Current (discount)/premium	0	1,782
Non-Current (discount)/premium	38,899	39,055
	38,899	40,837

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
20 LOANS (CONTINUED)		
20.3 SECURITY--LOANS		

All loan funding for Loy Yang Power Ltd. is arranged via Treasury Corporation of Victoria (TCV). Legal inability to the end investor for Loy Yang Power Ltd. loans rests with TCV.

These loans are guaranteed by the State Government of Victoria. In return Loy Yang Power Ltd. pays a financial accommodation levy to the State Government which increases the cost of debt to reflect market rates, based on an assessment of credit risk.

For debt novated to TCV, back-to-back loans have been established between Loy Yang Power Ltd. and TCV. Pursuant to Section 36D of the Treasury Corporation of Victoria (Debt Centralisation) Act 1993, Loy Yang Power Ltd. will reimburse TCV for all settlement amounts relating to these loans.

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21 AUDITORS' REMUNERATION

Amounts received, or due and receivable, by the Auditor-General for auditing

the financial statements:		
Total amount payable for annual audit fee	52	62

22 DIRECTORS' REMUNERATION

Amounts received, or due and receivable, by the directors of Loy Yang Power Ltd.	162	56
The number of directors of Loy Yang Power Ltd. whose annual remuneration (including superannuation contributions) falls within the following bands:		

$ Band levels	Directors	Directors
$30,000 -$39,999	3	3
$60,000 -$69,999	1	1

During the year Loy Yang Power Ltd. paid premiums for the indemnification and insurance of all directors and officers of Loy Yang Power Ltd. to the full extent permitted by Corporations Law.

The directors have applied ASC Class Order 95/741 in the disclosure of directors' remuneration.

23 EXECUTIVES' REMUNERATION

The number of executives of Loy Yang Power Ltd. whose remuneration falls within the following bands is set out below:

$ BAND LEVELS	EXECUTIVES	EXECUTIVES
$100,000 -$109,999	0	1
$110,000 -$119,999	2	4
$120,000 -$129,999	1	0
$130,000 -$139,999	3	1
$200,000 -$209,999	0	1
$210,000 -$219,999	1	0
Total remuneration received, or due and receivable, from Loy Yang Power Ltd. or related entities by executive officers of Loy Yang Power Ltd. whose remuneration exceeds $100,000:	974	890

1994/95 amounts represent annual equivalents.

1995/96 amounts represent 12 months actual.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

24 SEGMENTS

Loy Yang Power Ltd. operated entirely in Australia in the production and sale of electricity and coal.

25 RELATED PARTY DISCLOSURES

25.1 DIRECTORS OF LOY YANG POWER LTD.

Directors of Loy Yang Power Ltd. during the financial year were:

Mr. C. Little
Mr. D. Swan

Mr. J. C. Richards
Mr. J. S. Grigg

All directors are non executive.

25.2 TRANSACTIONS WITH DIRECTOR-RELATED ENTITIES

There were no transactions with director-related entities.

25.3 WHOLLY OWNED GROUP

The wholly owned group comprises the ultimate holding entity of Loy Yang Power Ltd., the Victorian State Government, and therefore all Victorian State Government Departments, Statutory Corporations and any other corporate entities owned by the Victorian State Government are related parties.

25.4 RELATED PARTY TRANSACTION CATEGORIES

The following types of related party transactions were transacted during the year, on normal commercial terms:

Electricity purchases
Electricity transmission costs
Electricity pool costs
Council rates
Auditing services
Brown Coal Royalties
Technical services
Payroll tax
Briquette purchases
Electricity sales revenue
Coal sales revenue
Water purchases and waste water disposals
Loans from shareholder
Land leases
Provision of loan facilities
Gas purchases
Superannuation payments

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

	30 JUNE 1996 $'000	30 JUNE 1995 $'000
25 RELATED PARTY DISCLOSURES (continued)		
25.5 OPERATING PROFIT AND LOSS TRANSACTIONS WITH RELATED PARTIES		
Interest revenue	1,164	371
Dividend revenue	127	0
Interest expense	126,711	58,707
25.6 RECEIVABLE AND PAYABLES AT BALANCE DATE		
AGGREGATE RELATED PARTY RECEIVABLES AT BALANCE DATE		
Current	57,508	99,469
Non-current	1,566	3,132
	59,074	102,601
AGGREGATE RELATED PARTY PAYABLES AT BALANCE DATE		
Current	1,994,185	2,097,008
Non-current	1,058,296	1,164,997

3,052,481	3,262,005

25.7 INTERESTS HELD
There are no interests held in any related party other than those disclosed as investments in note 8.

FINANCIAL STATEMENTS 1995/96

DIRECTORS' STATEMENT

In accordance with a resolution of the directors of Loy Yang Power Ltd., we state that:

In the opinion of the directors:

- The profit and loss statement is drawn up so as to give a true and fair view of the profit of the entity for the financial year ended 30 June 1996;

- The balance sheet is drawn up so as to give a true and fair view of the state of affairs of the entity as at 30 June 1996;

- At the date of signing this statement there are no circumstances which would render any particulars in the financial statements to be misleading or inaccurate; and

- At the date of this statement there are reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due. Arrangements for repayment of the shareholder loan are such that they will not jeopardise the companies ability to pay its debts as and when they fall due.

The financial statements are drawn up in accordance with Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law.

On behalf of the Board

/s/ C. Little
C. Little
Chairman

/s/ John S. Grigg
J.S. Grigg
Director

Melbourne, 29 August 1996

LOY YANG POWER ANNUAL REPORT 1995/96

AUDITOR-GENERAL'S REPORT

AUDIT SCOPE

The accompanying financial statements of Loy Yang Power Limited for the year ended 30 June 1996, comprising a profit and loss statement, balance sheet, statement of cash flows and notes to the financial statements, have been audited. The company's directors are responsible for the preparation and presentation of the financial statements and the information they contain. An

independent audit of these financial statements has been carried out in order to express an opinion on them to the manager of the company, as required by the Corporations Law and Audit Act of 1996.

The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. The audit procedures included an examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the basis on which the accounts have been prepared, namely applicable Accounting Standards, other mandatory professional reporting requirements and comply with the Corporations Law, so as to present a view which is consistent with my understanding of the company's financial position and the results of its operations and its cash flows.

The audit opinion expressed in the financial statements has been formed on the above basis.

AUDIT OPINION

In my opinion, the financial statements of Loy Yang Power Limited are properly drawn up:

a) so as to give a true and fair view of:

   i) the company's state of affairs as at 30 June 1996 and of its profit and cash flows for the financial year ended on that date; and

   ii) the other matters required by Divisions 1, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements,

b) in accordance with the Corporations Law, and

c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

/s/ C.A. Baragwanath
C.A. Baragwanath
Auditor-General

Melbourne, 29 August 1996

End of Audited Financial Statements

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996
PROFIT AND LOSS STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

	NOTES	31 DEC 1996 $'000
OPERATING REVENUE	2	283,881
Operating Profit before Income Tax	3	90,623
Income Tax Attributable to Operating Profit	4	33,043
OPERATING PROFIT AFTER INCOME TAX		57,580

Retained Profits at Beginning of Period	13	50,618
Dividends Paid or Payable.....		43,185
RETAINED PROFITS AT END OF PERIOD.....		85,013

This Profit and Loss Statement should be read in conjunction with the Notes
To
And Forming Part of the Financial Statements

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

BALANCE SHEET
AS AT 31 DECEMBER 1996

	NOTES	31 DEC 1996 $'000	30 JUNE 1995 $'000
CURRENT ASSETS			
Cash.....	14.1	74,578	658
Receivables.....	5	41,253	73,048
Inventories.....	6	4,876	3,560
Other assets.....	7	8,720	1,715
TOTAL CURRENT ASSETS.....		127,426	78,981
NON-CURRENT ASSETS			
Receivables.....	5	1,575	1,575
Inventories.....	6	13,133	13,176
Other assets.....	7	5,048	5,663
Investments.....	8	0	0
Property, plant and equipment.....	9	3,112,297	3,159,102
TOTAL NON-CURRENT ASSETS		3,132,048	3,179,516
TOTAL ASSETS.....		3,269,474	3,258,497
CURRENT LIABILITIES			
Creditors and borrowings....	10	2,136,844	2,039,619
Provisions.....	11	9,470	9,110
TOTAL CURRENT LIABILITIES		2,146,314	2,048,729
NON-CURRENT LIABILITIES			
Creditors and borrowings....	10	912,404	1,057,833
Provisions.....	11	135,743	101,317
TOTAL NON-CURRENT LIABILITIES.....		1,048,147	1,159,150
TOTAL LIABILITIES.....		3,184,451	3,207,879
NET ASSETS.....		65,013	50,618

EQUITY			
Share capital	12	0	0
Retained earnings	13	65,013	50,618
TOTAL EQUITY		65,013	50,618

This Balance Sheet should be read in conjunction with the Notes To And Forming Part of the Financial Statements

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

	NOTES	31 DEC 1996 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		327,238
Payments to suppliers and employees		(114,028)
NET CASH FLOW FROM OPERATING ACTIVITIES	14.2	213,210
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment		(8,788)
Proceeds from sale of property, plant and equipment		0
Proceeds from sale of investments		0
Dividends received		0
NET CASH FLOW USED IN INVESTING ACTIVITIES		(8,788)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest and other items of a similar nature received		2,223
Interest and other costs of finance paid		(43,273)
Hedging receipts associated with borrowings		8,013
Hedging payments associated with borrowings		(12,304)
Proceeds from borrowings		93,980
Repayment of borrowings		(24)
Repayment of shareholder loan		(21,600)
Buyback of borrowings		(96,364)
Dividends paid		(61,686)
NET CASH FLOW USED IN FINANCING ACTIVITIES		(131,035)
NET INCREASE/(DECREASE) IN CASH HELD		73,387
CASH AT BEGINNING OF PERIOD		38
CASH AT END OF PERIOD	14.1	73,425

This Statement of Cashflows should be read in conjunction with the Notes To And Forming Part of the Financial Statements

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF ACCOUNTING

The half-year financial statements are a special purpose financial report which has been prepared for the Due Diligence Committee in connection with the sale of Loy Yang Power Ltd. in compiling the accounts, Loy Yang Power has adopted the disclosure requirements of AASB 1029, "Half Year Accounts and Consolidated Accounts". The accounting policies adopted by the company in the preparation of this report are consistent with those used in the preparation of the statutory financial statements for the year ended 30 June 1996.

It is recommended that these half-year financial statements and reports be read in conjunction with the 30 June 1996 Annual Financial Statements.

The special purpose report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period.

1.2 PRIOR PERIOD COMPARISONS

Full comparative information has not been disclosed as the December 1995 half-year statements for Loy Yang Power Ltd. were not subject to audit review.

1.3 PROPERTY, PLANT AND EQUIPMENT

COST AND VALUATION
Property, plant and equipment are carried at cost.

DEPRECIATION AND AMORTISATION
Depreciation or amortisation is provided for all fixed assets other than freehold land. The majority of assets are depreciated using the straight line method to write off the cost of assets over their expected service lives. The expenditure associated with mine development costs is amortised on a units of production basis. Depreciation or amortisation for all assets commences on the first day of the month closest to the in-service date.

Changes in depreciation rates and/or depreciable amounts are dealt with on a prospective basis.

1.4 RECOVERABLE AMOUNTS

Non-current assets values do not exceed their recoverable amount. Where carrying values exceed their recoverable amount, assets are revalued downwards to the lower value. The expected net cash flows included in determining the recoverable amounts of non-current assets have been discounted to their present value using a market determined risk adjusted discount rate.

1.5 INVENTORIES

Costs are assigned to inventories using the average cost method. Inventories are valued at lower of cost and net realisable value. An estimate of items which are likely to be utilised in the next twelve months is classified as current.

1.6 ACCOUNTING FOR INCOME TAX

Loy Yang Power Ltd. is subject to the Victorian State Government Tax Equivalent System pursuant to Section 88 of the State Owned Enterprises Act 1992.

Loy Yang Power Ltd. has adopted the liability method of tax-effect accounting whereby income tax is regarded as an expense and is matched with the acounting profit after allowing for permanent differences.

To the extent that timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability is disclosed as a future income tax benefit or a provision for deferred income tax. These account balances are calculated with reference to the rates of income tax which are expected to apply when those timing differences reverse.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. The future income tax benefit arising from tax losses is only carried forward as an asset when the benefit is virtually certain of being realised.

1.7 DOUBTFUL DEBTS

The value of estimated doubtful debts is reviewed annually on an individual debtor basis, and appropriate provision is made where necessary.

1.8 NEGOTIABLE SECURITIES

Where interest is paid in advance on negotiable securities the interest is recognised as an asset and progressively charged to the Profit and Loss Statement over the applicable interest period. Interest payable in arrears is progressively charged to the Profit and Loss Statement over the applicable interest period and recognised as a liability.

Discounts and premiums on face value on the issue of negotiable securities are recognised as variations of the liability to which they relate. The variations are amortised over the term of the issue, using the effective yield method.

Changes in the capital value of the outstanding liability on index linked securities are recognised as variations in the book value of the liability and are charged to the Profit and Loss Statement.

Any gains or losses arising from the buyback of negotiable securities issued by Loy Yang Power Ltd. are charged to the Profit and Loss Statement as incurred or earned.

1.9 DERIVATIVES

Loy Yang Power Ltd. is exposed to changes in interest rates and

commodity prices from its activities. It is Loy Yang Power Ltd.'s policy to use derivative financial instruments to hedge these risks. Loy Yang Power Ltd. does not enter, hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments include forward rate agreements, futures, options, interest rate swaps and their Treasury Corporation of Victoria equivalents.

Gains and losses arising from the early termination of general hedges are amortised over the period of the hedge. The exception to this is bond futures where gains and losses are amortised over the average term to maturity of existing fixed debt.

1.9 DERIVATIVES (CONTINUED)

Gains and losses arising from the early termination of specific hedges are amortised over the shorter of the period of the borrowing being hedged or the period of the hedge.

1.10 EMPLOYEE ENTITLEMENTS
WAGES, SALARIES AND LEAVE

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and associated oncosts.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of their estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to Federal Government Guaranteed Securities which have terms to maturity approximating the terms of the related liability are used.

Employee entitlement expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and

- other types of employee entitlements,

are charged to the Profit and Loss Statement on a net basis in their respective categories.

SUPERANNUATION
Loy Yang Power Ltd. contributes towards the Victorian Electricity Industry (VEI) Superannuation Fund on behalf of its employees. These contributions are charged to the Profit and Loss Statement as the liability arises. As at the last completed audit (June 1996) the fund had a surplus of assets over accrued benefits of $0.4 million.

1.11 PROVISION FOR SITE RESTORATION -- POWER STATION AND MINE

Recognition of a liability for the cost of restoring the power station and mine sites to an acceptable environmental standard at the end of their useful lives has been provided for in these accounts (refer notes

11 and 16). This liability includes cost of reclamation, plant closure and dismantling, and waste site closure.

The liability is recognised on a gradual basis and is calculated by discounting the estimated future site restoration costs to their net present value. Annual increments to the liability for each site are charged to the Profit and Loss Statement over the estimated remaining life of each site.

Expected future payments for site restoration are discounted using interest rates attaching, as at the reporting date, to Federal Government Guaranteed Securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Cost estimates are based on the assumption that current legal requirements and/or technologies will not change significantly over the life of the power station and mine sites.

Changes in estimates are dealt with on a prospective basis.

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.12 CASH

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, investments in money market instruments and short-term deposits and securities, net of outstanding overdrafts.

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	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
2 OPERATING REVENUE COMPRISES		
Sales revenue	272,788	
Interest revenue	2,398	
Proceeds from the sale of non-current assets	471	
Other revenue	8,223	
	283,881	

- ---

3 OPERATING PROFIT		
The operating profit before income tax is arrived at after charging/(crediting) the following items:		
Depreciation, Amortisation and Diminution		
Plant and equipment	47,990	
Development of mine (amortisation)	576	
Leased plant and equipment (amortisation)	4,339	
Buildings	188	
Total Depreciation, Amortisation and Diminution	53,073	
Amounts Set Aside to Provisions		
Employee entitlements	2,839	
Site restoration--power station	427	
Site restoration--mine	180	
Total Amount Set Aside to Provisions	3,446	
Interest Expense	58,958	
Government Mining Royalties Incurred	4,934	
Energy Consumption Levy	10	
Superannuation Contributions	1,371	
Rental Operating Leases	146	
Profit/(Loss) on Sale of Non-Current Assets	2	
Research and Development Expenditure	261	

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
4 INCOME TAX		
4.1 INCOME TAX EXPENSE		
The prima facia tax on operating profit differs from the income tax provided in the accounts as follows:		
Prima facie income tax expense calculated at 36%	32,624	
Increase in income tax expense due to permanent differences		
Provisions for employee entitlements-non-deductible	421	
Provisions for restoration--non-deductible	154	
Tax exempt income	257	
Entertainment and other non-deductible items	2	
Decrease in income tax expense due to permanent differences		
Tax exempt income		
Research and development concession	(36)	
Depreciation on buildings	(380)	
Add: Restatement of deferred tax balances due to change in income tax rate	0	
TOTAL INCOME TAX EXPENSE ATTRIBUTABLE TO OPERATING PROFIT	33,043	
Total income tax expense is made up of:		
Deferred income tax provision	40,083	
Less: future income tax benefit	7,020	
	33,043	
4.2 ANALYSIS OF TAX BALANCES CARRIED FORWARD		
CURRENT		
Future income tax benefit, balance at end of period	1,010	1,019
Less: provision for deferred income tax, balance at end of period	271	450
NET FUTURE INCOME TAX BENEFIT (REFER NOTE 7)	739	569
NON-CURRENT		
Provision for deferred income tax, balance at end of period	176,146	135,955
Less: future income tax benefit, balance at end of period	52,244	45,267
NET PROVISION FOR DEFERRED INCOME TAX (REFER NOTE 11)	123,902	90,888

The future income tax benefit will only be obtained if:
a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
b) the conditions for deductibility imposed by tax legislation continue to be complied with, and
c) no changes in tax legislation adversely affect Loy Yang Power Ltd. in realising the benefit.

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
5 RECEIVABLES		
CURRENT		
Trade debtors	39,468	69,664
Other debtors	1,785	3,384
	41,253	73,048
NON-CURRENT		
Trade debtors	1,675	1,575
Other debtors	0	0
	1,675	1,575
6 INVENTORIES		
CURRENT		
General purpose and maintenance stocks at cost	4,875	3,560
Less: Inventory diminution	0	0
	4,875	3,560
NON-CURRENT		
General purpose and maintenance stocks at cost	13,621	13,664
Less: Inventory diminution	488	488
	13,133	13,176
7 OTHER ASSETS		
CURRENT		
Prepayments	5,981	1,146
Future income tax benefit (refer note 4.2)	739	569
	5,720	1,715
NON-CURRENT		
Unamortised interest rate swap termination losses	4,307	4,828
Unamortized futures termination losses	741	835
	5,048	5,663
8 INVESTMENTS		
8.1 NON-CURRENT INVESTMENTS AT COST COMPRISE:		
Unlisted share	0	0
Unlested shares in associated companies	0	0
	0	0

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

8 INVESTMENTS (CONTINUED)

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
8.2 NON-CURRENT INVESTMENTS IN UNILATED ASSOCIATED COMPANIES		
PowerWorks Pty. Ltd.		
PowerWorks Pty. Ltd.'s principal activity is to promote the electricity industry to the public		
Ownership interest	33.3%	33.3%
Investment carrying amount	0.1	0.1
The above investment is held by Loy Yang Power Ltd. and is comprised of interest in the ordinary share capital of the associate.		
The balance date of the associate is 30 June, and the associate is incorporated in Australia.		
There are no material post-balance day events or dissimilar accounting policies.		
9 PROPERTY, PLANT AND EQUIPMENT AT COST		
Land at cost	1,589	1,589
	1,589	1,589
Buildings at cost	8,333	8,237
Less: Accumulated depreciation	625	457
	7,708	7,780
Plant and equipment at cost	2,992,174	2,986,003
Less: accumulated depreciation	184,294	136,300
	2,807,880	2,849,703
Plant and equipment under lease at cost (refer note 15.3)	274,988	274,988
Less: accumulated amortisation	18,654	12,315
	258,334	282,673
Mine development at cost	38,842	38,842
Less: accumulated amortisation	2,061	1,485
	38,781	37,357
TOTAL FIXED ASSETS AT COST	3,315,928	3,309,059
TOTAL ACCUMULATED DEPRECIATION/AMORTISATION	203,534	150,557
TOTAL WRITTEN DOWN AMOUNT	3,112,292	3,159,102
10 CREDITORS AND BORROWINGS		
CURRENT		
Trade creditors	19,423	35,138
Bank overdraft (refer note 14.1)	1,163	620
Shareholder loan*	1,895,891	1,917,492
Interest accrued	30,116	23,765
Dividend payable	43,185	61,686
Other loans (refer note 21)	148,165	49

LOY YANG POWER LTD. SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 1996

10 CREDITS AND BORROWINGS (CONTINUED)

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
Other liabilities	911	869
	2,138,844	2,039,819
NON-CURRENT		
Loans (refer note 21)	912,404	1,057,833
	912,404	1,057,833

There are no guarantees or securities over assets with respect to borrowings.

* In accordance with the Electricity Industry (Further Amendment) Act 1994 section 153F and the Electricity Industry (Amendment) Act 1995 section 153W, the shareholder loan is an amount owing to the State Electricity Commission of Victoria and, whilst the loan holds a legal obligation, it holds no interest payable and no term is specified for repayment. Loy Yang Power Ltd., however, has made repayments against the shareholder loan in the half-year to 31 December 1996.

11 PROVISIONS		
CURRENT		
Employee entitlements (refer note 17)	8,023	7,478
Site restoration--mine (refer note 18)	140	140
Redundancies	1,307	1,494
	9,470	9,110
NON-CURRENT		
Employee entitlements (refer note 17)	8,532	5,927
Site restoration--power station (refer note 16)	4,181	3,734
Site restoration--mine (refer note 16)	1,148	968
Deferred income tax (refer note 4.2)	123,902	90,688
	135,743	101,317

12 SHARE CAPITAL

AUTHORISED CAPITAL:

500,000,000 Ordinary Shares of $1.00 each	500,000	500,000
Issued and Paid up Capital: 15 ordinary shares of $1.00 each, fully paid (Balance not shown due to rounding)	0	0
13 RETAINED EARNINGS		
Balance at beginning of period	50,618	50,618

13 RETAINED EARNINGS (CONTINUED)

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
Transfer from profit and loss	57,580	117,888
Total available for appropriation	108,198	168,304
Interim dividend payable	43,185	58,000
Final dividend payable	0	61,888
Balance at End of Period	65,013	60,618

14.1 RECONCILIATION OF CASH

Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

CASH		
Cash on hand	8	8
Short term deposits and securities	74,570	650
	74,578	658
OVERDRAFT		
Bank overdraft	(1,163)	(620)
	(1,163)	(620)
	73,425	38

Loy Yang Power Ltd. has a bank overdraft facility of $5 million arranged with the National Australia Bank. $3.8 million of the facility is available at 31 December 1996.

14.2 RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating profit after income tax	57,580
NON-CASH REVENUES AND EXPENSES, AND REVENUES AND EXPENSES ASSOCIATED WITH FINANCING OR INVESTING ACTIVITIES:	
Depreciation and amortisation expense	53,073
Income tax expense	33,043
Interest revenue received	(2,398)
Finance charges	56,966
Dividend revenue received	0
Loss/(profit) on sold and scrapped non-current assets	(2)
	140,674
ADJUST FOR MOVEMENTS IN ASSETS AND LIABILITIES	
Increase/(decrease) in operating expenditure accruals	(12,479)
Increase/(decrease) in provisions	1,572
Increase/(decrease) in trust funds and deposits	43
Decrease/(increase) in accounts receivable/accrued revenue	31,971

14 STATEMENT OF CASH FLOWS (CONTINUED)

14.2 RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
Decrease/(increase) in prepayments	(4,836)	
Decrease/(increase) in inventory	(1,316)	
	14,956	
NON CASH PROVIDED BY OPERATING ACTIVITIES	213,210	

---

15 EXPENDITURE COMMITMENTS

15.1 CAPITAL EXPENDITURE COMMITMENTS

Outstanding contract commitments for capital expenditure contracted for at balance date but not provided for comprises the following:

Payable not later than one year	6,607	946
	6,607	946

15.2 NON-CAPITAL EXPENDITURE COMMITMENTS

Outstanding contract commitments for non-capital expenditure contracted for at balance date but not provided for comprises the following:

Payable not later than one year	12,959	6,524
Payable greater than one and less than two years	766	1,566
Payable greater than two and less than five years	75	
	13,800	8,090

15.3 LEASE EXPENDITURE COMMITMENTS

Outstanding operating lease (non-cancellable) commitments at balance date but not provided for comprises the following:		
Payable not later than one year	62	138
Payable greater than one and less than two years	19	145
Payable greater than two and less than five years	17	169
	98	452

15 EXPENDITURE COMMITMENTS (CONTINUED)

15.3 LEASE EXPENDITURE COMMITMENTS (CONTINUED)

	31 DECEMBER 1996 $'000	30 JUNE 1996 $'000
Loy Yang Power Ltd. holds $258 million of plant disclosed as leased assets in note 9. The leases for these assets have not yet been novated to Loy Yang Power Ltd., and they remain with the current lessees being either the State Electricity Commission of Victoria or Generation Victoria. As a consequence Loy Yang Power Ltd. has no lease liability in respect to these leases. Loy Yang Power Ltd. and the State Electricity Commission of Victoria are progressing Issues to ensure Loy Yang Power Ltd's. ongoing right to use the assets. The lessors have given their conditional consent for Loy Yang Power Ltd. to use the assets.		

16 SITE RESTORATION COSTS--POWER STATION AND MINE

Provision for site restoration of the power station and mine sites of $5.4 million has been provided for in the accounts as at 31 December 1996. The total net present value of estimated future cash outflows for site restoration is $40 million.

17 EMPLOYEE ENTITLEMENTS

17.1 AGGREGATE EMPLOYEE ENTITLEMENT

Wages and salaries	211	185
Recreation leave	7,196	6,663
Long service leave	7,359	6,740
Redundancies	1,307	1,494
	16,073	15,082

The amounts for long service leave are measured at their present values. The following assumptions were adopted in measuring the present values of the entitlements which are not expected to be paid or settled within 12 months of balance date.

Long Service Leave:

Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	2.9%	2.9%
Weighted average discount rates	7.2%	6.7%
Weighted average terms to settlement of the liabilities	10 Years	11 Years

	31 DECEMBER 1996 $'000	30 JUNE 1995 $'000

18 CONTINGENT EVENTS

18.1 Loy Yang Power Ltd. was allocated its assets and liabilities from Generation Victoria through an allocation statement in accordance with the Electricity Industry (Further Amendment) Act 1994. Under section 153B of this Act, the allocation statement may be amended at any time at the direction of the Victorian Government Treasurer and relevant Minister.

18.2 Upon the disaggregation of the State Electricity Commission of Victoria (SECV) on 3 January 1994, Generation Victoria entered into a contract with the SECV to meet the SECV's obligations under its contracts for the supply of coal and infrastructure services to the Loy Yang B Joint Venture in consideration of receipt of all SECV's revenues under those contracts. Upon the disaggregation of Generation Victoria on 31 January 1995, Generation Victoria's rights and obligations were allocated to Loy Yang Power Ltd.

Under the contract Loy Yang Power Ltd. is directly liable to the SECV to use its "best endeavours", backed by an indemnity in favour of the SECV for performance of these obligations, subject only to force majeure relief. A failure by Loy Yang Power Ltd. to use its "best endeavours" may result in liabilities being imposed on Loy Yang Power Ltd. At the time of preparation of this report, Loy Yang Power Ltd. is not aware of any breaches of performance obligations on its part.

The SECV remains the contracting party under the contracts with the Loy Yang B Joint Venture.

18.3 On 10 December 1996 the State Government of Victoria announced its

intention to privatise Loy Yang Power Ltd.

19 CONTINGENT LIABILITIES

Loy Yang Power Ltd. is liable for early contract termination penalties with some site contractors. The estimated value of this liability is $325 thousand.

	31 DECEMBER 1996 $'000	30 JUNE 1995 $'000
20 TREASURY		
20.1 LOY YANG POWER LTD. DERIVATIVES		
Loy Yang Power Ltd.'s derivative products are dealt through Treasury Corporation of Victoria (TCV). The only derivative products outstanding as at 31 December 1996 were Interest Rate Swaps.		
INTEREST RATE SWAPS		
Under these swaps, Loy Yang Power Ltd. agrees with the counterpart to exchange, at specified intervals, the difference between the fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The notional principal amounts are not exchanged by the parties.		
The maturity profile of these swaps in notional principal terms is:		
Later than two years and not later than five years	25,000	25,000
Later than five years	195,000	195,000
	220,000	220,000
The following table indicates the type of swaps held by Loy Yang Power Ltd. and their weighted average interest rates.		
Pay-fixed swaps--notional principal amount	220,000	220,000
Average pay rate--Loy Yang Power Ltd. specific cost	10.6%	12.6%
Average receive rate	6.1%	7.6%
Loy Yang Power Ltd.'s credit exposures on these swaps is nil as the counterpart in each case is TCV.		
21 LOANS		
21.1 LOAN COMPONENTS		
CURRENT LOANS		
Premium/(discount) on loans	7,279	0
Fixed interest loans	54,886	49
Fixed interest bonds	84,000	0
	146,165	49

21 LOANS (CONTINUED)

	31 DECEMBER 1996 $'000	30 JUNE 1995 $'000
21.1 LOAN COMPONENTS (CONTINUED)		
NON-CURRENT LOANS		
Premium/(discount) on loans	4,770	38,899
Floating rate notes	144,745	249,745
Fixed interest bonds	515,695	626,895
Capital indexed bonds	177,130	142,829
Fixed interest loans	70,064	65
	912,404	1,057,833
	1,058,559	1,057,882
Liabilities in years of maturity, at face value are:		
Not later than one year	138,887	49
Later than one year and not later than two years	177,916	353,784
Later than two years and not later than five years	585,733	327,721
Later than five years	143,984	337,429
	1,046,520	1,018,883
Plus unamortised adjustments to face value (refer note 21.2)	12,049	38,868
	1,058,569	1,057,882
21.2 ADJUSTMENTS TO FACE VALUE OF LOANS		
Current (discount)/premium	7,279	0
Non-Current (discount)/premium	4,770	38,899

	12,049	38,899

21.3 SECURITY--LOANS

All loan funding for Loy Yang Power Ltd. is arranged via Treasury Corporation of Victoria (TCV).
Legal liability to the end investor for Loy Yang Power Ltd. loans rest with TCV.

These loans are guaranteed by the State Government of Victoria. In return Loy Yang Power Ltd. pays a financial accommodation levy to the State Government which increases the cost of debt to reflect market rates, based on an assessment of credit risk.

For debt novated to TCV, back-to-back loans have been established between Loy Yang Power Ltd. and TCV. Pursuant to Section 36D of the Treasury Corporation of Victoria (Debt Centralisation) Act 1993, Loy Yang Power Ltd. will reimburse TCV for all settlement amounts relating to these loans.

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THIS OFFERING, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY NRG. THE INFORMATION CONTAINED HEREIN IS AS OF THE DATE HEREOF AND SUBJECT TO CHANGE, COMPLETION OR AMENDMENT WITHOUT NOTICE. DELIVERY OF THIS PROSPECTUS AT ANY TIME SHALL NOT CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN OR IN THE AFFAIRS OF NRG SINCE THE DATE HEREOF OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY OTHER THAN THE NOTES OFFERED HEREBY, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE NOTES OFFERED HEREBY IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION TO SUCH PERSON.

TABLE OF CONTENTS

UNTIL , ALL DEALERS EFFECTING TRANSACTIONS IN THE NEW NOTES, WHETHER OR NOT PARTICIPATING IN THE EXCHANGE OFFER, MAY BE REQUIRED TO DELIVER A PROSPECTUS.

$250,000,000

NRG ENERGY INC.

7 1/2% SENIOR NOTES
DUE 2007

GRAPHIC OMITTED

PROSPECTUS

DATED , 1997

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following is an estimate of all expenses in connection with the issuance and distribution of the securities being registered hereby:

SEC Registration Fee	$ 75,758
Accountants' fees and expenses	100,000
Attorney's fees and expenses	150,000
Printing expenses	100,000
Miscellaneous	19,242
Total	$445,000

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

As authorized by Section 145 of the General Corporation Law of the State of Delaware, each director and officer of NRG may be indemnified by NRG against expenses (including attorney's fees, judgments, fines and amounts paid in settlement) actually and reasonably incurred in connection with the defense or settlement of any threatened, pending or completed legal proceedings in which he is involved by reason of the fact that he is or was a director or officer of NRG if he acted in good faith and in a manner that he reasonably believed to be in or not opposed to the best interests of NRG and, with respect to any criminal action or proceeding, if he had no reasonable cause to believe that his conduct was unlawful. However, if the legal proceeding is by or in the right of NRG, the director or officer may not be indemnified in respect of any claim, issue or matter as to which he shall have been adjudged to be liable for negligence or misconduct in the

performance of his duty to NRG unless a court determines otherwise.

In addition, Article VI of NRG's By-Laws provides that NRG shall indemnify and hold harmless, to the fullest extent permitted by applicable law, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding") by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director, officer, employee or agent of NRG or is or was serving at the request of NRG as a director, officer, employee or agent of another company or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person. NRG shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized by the Board of Directors of NRG.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

On June 12, 1997, NRG sold $250,000,000 aggregate principal amount of its 7-1/2% Senior Notes Due 2007 (the "Old Notes") to Salomon Brothers Inc, ABN AMRO Chicago Corporation and Chase Securities Inc. (the "Initial Purchasers") for $250,000,000 less the aggregate discount to Initial Purchasers of $1,625,000. Such transaction was exempt from the registration requirements of the Securities Act of 1933, in reliance on Section 4(2) of the Securities Act on the basis that such transactions did not involve a public offering. In accordance with the agreement pursuant to which the Initial Purchasers purchased the Old Notes, such Initial Purchasers agreed to offer and sell the Old Notes only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and pursuant to offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act.

On January 29, 1996, NRG sold $125,000,000 aggregate principal amount of its 7.625% Senior Notes Due 2006 (the "1996 Notes") to Bear, Stearns & Co. Inc. and Merrill Lynch & Co. (the "1996 Note Initial Purchasers") for $125,000,000 less the aggregate discount to 1996 Note Initial Purchasers of

$812,500. Such transaction was exempt from the registration requirements of the Securities Act of 1933, in reliance on Section 4(2) of the Securities Act on the basis that such transactions did not involve a public offering. In accordance with the agreement pursuant to which the 1996 Note Initial Purchasers purchased the 1996 Notes, such 1996 Note Initial Purchasers agreed to offer and sell the 1996 Notes only to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act), a limited number of institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) and pursuant to offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

EXHIBIT	
3.1	Certificate of Incorporation of NRG.*
3.2	By-Laws of NRG.*
4.1	Indenture, dated as of June 1, 1997, between NRG and Norwest Bank Minnesota, National Association.
4.2	Form of Exchange Notes.*
4.3	Registration Rights Agreement, dated as of June 12, 1997, by and among NRG, Salomon Brothers Inc, ABN AMRO Chicago Corporation and Chase Securities Inc.*
5.1	Opinion and consent of Skadden, Arps, Slate, Meagher & Flom LLP as to legality of the Exchange Notes to be issued by NRG.
10.1	Employment Contract, dated as of June 28, 1995, between NRG and David H. Peterson.*
10.2	Indenture, dated as of January 31, 1996, between NRG and Norwest Bank Minnesota, National Association, as Trustee.*

10.3	Revolving Credit Agreement, dated as of March 17, 1997, among NRG, the banks party thereto and ABN AMRO Bank, N.V. as Agent.*
10.4	Note Agreement, dated August 20, 1993, among NRG Energy Center, Inc. and each of the purchasers named therein.
10.5	Master Shelf and Revolving Credit Agreement, dated August 20, 1993 among NRG Energy Center, Inc., The Prudential Insurance Company of America and each Prudential Affiliate which becomes party thereto.
10.6	Energy Agreement, dated February 12, 1988 between NRG (formerly known as Norenco Corporation) and Waldorf Corporation (the "Energy Agreement").
10.7	First Amendment to the Energy Agreement, dated August 27, 1993.
10.8	Second Amendment to the Energy Agreement, dated January 31, 1996.
10.9	Third Amendment to the Energy Agreement, dated August 25, 1997.
10.10	Construction, Acquisition and Term Loan Agreement, dated September 2, 1997 by and among NEO Landfill Gas, Inc., as Borrower, the lenders named on the signature pages, Credit Lyonnais New York Branch, as Construction/Acquisition Agent and Lyon Credit Corporation, as Term Agent.
10.11	Guaranty, dated September 12, 1997 by NRG in favor of Credit Lyonnais New York Branch as agent for the Construction/Acquisition Lenders.
10.12	Construction, Acquisition and Term Loan Agreement, dated September 2, 1997 by and among Minnesota Methane LLC, as Borrower, the lenders named on the signature pages, Credit Lyonnais New York Branch, as Construction/Acquisition Agent and Lyon Credit Corporation, as Term Agent.
10.13	Guaranty, dated September 12, 1997 by NRG in favor of Credit Lyonnais New York Branch as agent for the Construction/Acquisition Lenders.
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23.5	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1).
24	Power of Attorney of certain officers and directors of NRG.*
25	Form T-1 Statement of Eligibility of Norwest Bank Minnesota, National Association to act as trustee under the Indenture.*
27	Financial Data Schedule.
99.1	Form of Letter of Transmittal.
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* Previously filed.

ITEM 17. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by the controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, NRG Energy, Inc. certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minneapolis, in the State of Minnesota, on the 9th day of October, 1997.

NRG Energy, Inc.
By: /s/ David H. Peterson

David H. Peterson
Chairman of the Board,
President
and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on the dates indicated:

Signature	Title	Date
*	Chairman of the Board,	
David H. Peterson	President and Chief Executive Officer	October 9, 1997
/s/ Leonard A. Bluhm		
Leonard A. Bluhm	Executive Vice President and Chief Financial Officer	October 9, 1997
*		
Gary R. Johnson	Director	October 9, 1997
*		
Cynthia L. Lesher	Director	October 9, 1997
*		
Edward J. McIntyre	Director	October 9, 1997
*		
John A. Noer	Director	October 9, 1997

*By: /s/ Leonard A. Bluhm

Attorney-in-fact

EXHIBIT INDEX

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* Previously filed.

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
919 THIRD AVENUE
NEW YORK, NEW YORK 10022
(212) 735-3000
FAX (212) 735-2000

October 9, 1997

NRG Energy, Inc.
1221 Nicollet Mall, Suite 700
Minneapolis, Minnesota 55403

Re: NRG Energy, Inc.
Registration Statement on Form S-1

Ladies and Gentlemen:

We have acted as special counsel to NRG Energy, Inc., a Delaware corporation ("NRG"), in connection with the issuance by NRG of $250,000,000 aggregate principal amount of NRG's 7-1/2% Senior Notes due 2007 (the "New Notes") to be issued under the Indenture, dated as of June 1, 1997 (the "Indenture"), between NRG and Norwest Bank Minnesota, National Association, as Trustee (the "Trustee"), in exchange for a like principal amount of NRG's existing 7-1/2% Senior Notes due 2007 (the "Old Notes").

This opinion is being furnished in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act of 1933, as amended (the "Act").

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) the Registration Statement on Form S-1 (File No. 33-33397) as filed with the Securities and Exchange Commission (the "Commission") on August 12, 1997 under the Act, and Amendment No. 1 with which this opinion is being filed (such Registration

Statement, as so amended, being hereinafter referred to as the "Registration Statement"); (ii) an executed copy of the Indenture; (iii) the form of the New Notes; (iv) the Form T-1 Statement of Eligibility of the Trustee filed as an exhibit to the Registration Statement; (v) the Certificate of Incorporation of NRG, as presently in effect; (vi) the By-Laws of NRG, as presently in effect; and (vii) certain resolutions of the Board of Directors of NRG and the Pricing Committee of the Board of Directors of NRG in each case relating to the issuance and sale of the Old Notes and the issuance and exchange of the Old Notes for the New Notes and related matters. We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such records of NRG and such agreements, certificates of public officials, certificates of officers or other representatives of NRG and others, and such other documents, certificates and records as we have deemed necessary or appropriate as a basis for the opinions set forth herein.

In our examination, we have assumed the legal capacity of

all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of documents executed or to be executed by parties other than NRG, we have assumed that such parties had or will have the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof. As to any facts material to the opinions expressed herein which we have not independently established or verified, we have relied upon statements and representations of officers and other representatives of NRG and others.

Members of our firm are admitted to the bar in the State of New York, and we do not express any opinion as to the laws of any other jurisdiction other than the Delaware General Corporation Law (the "DGCL").

Based upon and subject to the foregoing, we are of the opinion that when (i) the Registration Statement becomes effective under the Act and the Indenture has been qualified under the Trust Indenture Act of 1939, as amended; (ii) the New Notes, upon consummation of the exchange offer described in the Registration Statement (the "Exchange Offer"), have been duly executed and authenticated in accordance with the terms of the Indenture; and (iii) the New Notes issuable upon consummation of the Exchange Offer have been duly delivered against receipt of Old Notes surrendered in exchange therefor pursuant to the terms of the Exchange Offer, the New Notes issuable upon consummation of the Exchange Offer will constitute valid and binding obligations of NRG entitled to the benefits of the Indenture and enforceable against NRG in accordance with their terms, except to the extent that enforcement thereof may be limited by (1) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (2) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

In rendering our opinion set forth above, we have assumed that the execution and delivery by NRG of the Indenture and the New Notes and the performance by NRG of its obligations thereunder do not and will not violate, conflict with or constitute a default under (i) any agreement or instrument to which NRG or any of its properties is subject (except that we do not make the assumption set forth in this clause (i) with respect to the Certificate of Incorporation or By-laws of NRG), (ii) any law, rule or regulation to which NRG is subject (except that we do not make the assumption set forth in this clause (ii) with respect to the DGCL and those laws, rules and regulations (other than securities and antifraud laws) of the State of New York which, in our experience, are normally applicable to transactions of the type contemplated by the Indenture, but without our having made any special investigation concerning any other laws, rules or regulations), (iii) any judicial or regulatory order or decree of any governmental authority or (iv) any consent, approval, license, authorization or validation of, or filing, recording or registration with any governmental authority.

We hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement. We also consent to the reference to our firm under the caption "Legal Matters" in the Registration Statement. In giving this consent, we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission.

Very truly yours,

/s/ Skadden, Arps, Slate,
Meagher & Flom LLP

EXHIBIT 10.4

MASTER SHELF AND REVOLVING CREDIT AGREEMENT

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NRG ENERGY CENTER, INC.

MASTER SHELF AND
REVOLVING CREDIT AGREEMENT

DATED AUGUST 20, 1993

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INFORMATION SCHEDULE

NRG ENERGY CENTER, INC.
1221 NICOLLET MALL, SUITE 700
MINNEAPOLIS, MINNESOTA 55403-2445

August 20, 1993

The Prudential Insurance Company
of America (herein called "PRUDENTIAL")
Each Prudential Affiliate which becomes
bound hereby
c/o Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Gentlemen:

The undersigned, NRG Energy Center, Inc. (herein called the "COMPANY"), hereby agrees with you as follows:

1. TERM NOTE SHELF FACILITY.

1A. AUTHORIZATION OF ISSUE OF TERM NOTES. The Company will authorize the issue of its senior secured term notes (herein called the "Term Notes") in the aggregate principal amount of $10,000,000, to be dated the date of

issue thereof, to mature, in the case of each Term Note so issued, no less than three years and no more than twenty years after the date of original issuance thereof (but in no event with a maturity subsequent to June 15, 2013), to bear interest on the unpaid balance thereof from the date thereof at the rate per annum, and to have such other particular terms, as shall be set forth, in the case of each Term Note so issued, in the Confirmation of Acceptance with respect to such Term Note delivered pursuant to paragraph 1G, and to be substantially in the form of Exhibit A attached hereto. The term "Term Notes" as used herein shall include each Term Note delivered pursuant to any provision of this Agreement and each Term Note delivered in substitution or exchange for any such Term Note pursuant to any such provision. Term Notes which have (i) the same final maturity, (ii) the same installment payment dates, (iii) the same installment payment amounts (as a percentage of the original principal amount of each Term Note), (iv) the same interest rate, and (v) the same interest payment periods, are herein called a "SERIES" OF TERM NOTES.

1B. FACILITY. Prudential is willing to consider, in its sole discretion and within limits which may be authorized for purchase by Prudential and Prudential Affiliates from time to time, the purchase of Term Notes pursuant to this Agreement. The willingness of Prudential to consider such purchase of Term Notes is herein called the "FACILITY". At any time, the aggregate principal amount of Term Notes stated in paragraph 1A, minus the aggregate principal amount of Term Notes purchased and sold pursuant to this Agreement prior to such time, minus the aggregate principal amount of Accepted Notes (as hereinafter defined) which have not yet been purchased and sold hereunder prior to such time is herein called the "AVAILABLE FACILITY AMOUNT" at such time. Notwithstanding the willingness of Prudential to consider purchases of Term Notes, this Agreement is entered into on the express understanding that neither Prudential nor any Prudential Affiliate shall be obligated to make or accept offers to purchase Term Notes, or to quote rates, spreads or other terms with respect to specific purchases of Term Notes, and the Facility shall in no way be construed as a capital commitment by Prudential or any Prudential Affiliate.

1C. ISSUANCE PERIOD. Subject to and upon the terms and conditions herein set forth, Term Notes may be issued and sold pursuant to this Agreement from time to time on any Business Day during the period from the date hereof to the earlier to occur of (i) the date on which (A) the Company pays (other than pursuant to paragraph 2B(1)) in their entirety any Notes issued under this Agreement or any 1993 Notes, (B) Prudential or any Prudential Affiliate exercises its option to require prepayment in their

entirety of any Notes issued under this Agreement or any 1993 Notes, or (c) any Notes issued under this Agreement or any 1993 Notes are otherwise prepaid in their entirety or required to be so prepaid, including without limitation by automatic acceleration, demand for payment or pursuant to the Mortgage, (ii) June 15, 1996 (or if such date is not a Business Day, the Business Day next preceding such date) and (iii) the thirtieth day after Prudential shall have given to the Company, or the Company shall have given to Prudential, a notice stating that it elects to terminate the issuance and sale of Term Notes pursuant to this Agreement (or if such thirtieth day is not a Business Day, the Business Day next preceding such thirtieth day). The period during which Term Notes may be issued and sold pursuant to this Agreement is herein called the "Issuance Period".

1D. PERIODIC SPREAD INFORMATION. Not later than 9:30 A.M. (New York City local time) on a Business Day during the Issuance Period if there is an Available Facility Amount on such Business Day, the Company may request by telecopier or telephone, and within a reasonable time after such request, Prudential will, to the extent reasonably practicable, provide to the Company on such Business Day (or, if such request is received after 9:30 A.M. (New York City local time) on such Business Day, on the following Business Day), information (by telecopier or telephone) with respect to various spreads at which Prudential or Prudential Affiliates might be interested in purchasing Term Notes of different average lives; provided, however, that the Company

may not make such requests more frequently than once in every five Business Days or such other period as shall be mutually agreed to by the Company and Prudential. The amount and content of information so provided shall be in the sole discretion of Prudential but it is the intent of Prudential to provide information which will be of use to the Company in determining whether to initiate procedures for use of the Facility. Information so provided shall not constitute an offer to purchase Term Notes, and neither Prudential nor any Prudential Affiliate shall be obligated to purchase Term Notes at the spreads specified. Information so provided shall be representative of potential interest only for the period commencing on the day such information is provided and ending on the earlier of the fifth Business Day after such day and the first day after such day on which further spread information is provided. Prudential may suspend or terminate providing information pursuant to this paragraph 1D if, in its sole discretion, it determines that there has been an adverse change in the credit quality of the Company after the date of this Agreement.

1E. REQUEST FOR PURCHASE. The Company may from time to time during the Issuance Period make requests for purchases of Term Notes (each such request being herein called a "Request for Purchase"). Each Request for Purchase shall be made to Prudential by telecopier and confirmed by nationwide overnight delivery service, and shall (i) specify the aggregate principal amount of Term Notes covered thereby, which shall not be less than $2,500,000 (or, if the then Available Facility Amount is less than $2,500,000, but at least $1,000,000, such Request for Purchase may be for the Available Facility Amount) and not be greater than the Available Facility Amount at the time such Request for Purchase is made, (ii) specify the principal amounts, final maturities, installment payment dates and amounts and interest payment period (which interest payment period shall be quarterly in arrears) of the Term Notes covered thereby, (iii) specify the use of proceeds of such Term Notes, (iv) specify the proposed day for the closing of the purchase and sale of such Term Notes, which shall be a Business Day during the Issuance Period not less than 10 days and not more than 25 days after the making of such Request for Purchase, (v) specify the number of the account and the name and address of the depository institution to which the purchase prices of such Term Notes are to be transferred on the Closing Day for such purchase and sale, (vi) certify that the representations and warranties contained in paragraph 8 and contemplated by paragraph 3B(2) hereof are true on and as of the date of such Request for Purchase, except to the extent of changes caused by the transactions herein contemplated and to the extent such representations and warranties by their express terms relate solely to an earlier date, and that there exists on the date of such Request for Purchase no Event of Default or Default, and (vii) be substantially in the form of Exhibit B attached hereto. Each Request for Purchase shall be in writing and shall be deemed made when received by Prudential.

1F. RATE QUOTES. Not later than five Business Days after the Company shall have given Prudential a Request for Purchase pursuant to paragraph 1E, Prudential may (but shall not be obligated to) provide (by telephone promptly thereafter confirmed by telecopier, in each case no earlier than

9:30 A.M. and no later than 1:00 P.M. New York City local time) interest rate quotes for the several principal amounts, maturities, installment payment schedules, and interest payment periods of Term Notes specified in such Request for Purchase. Each quote shall represent the interest rate per annum payable on the outstanding principal balance of such Term Notes until such balance shall have become due and payable, at which Prudential or a Prudential Affiliate would be willing to purchase such Term Notes at 100% of the principal amount thereof.

1G. ACCEPTANCE. Within 30 minutes after Prudential shall have provided any interest rate quotes pursuant to paragraph 1F or in the event that due to conditions in the market place it shall not be feasible to hold such interest rate quotes open 30 minutes, such shorter period as Prudential may specify to the Company (such period herein called the "ACCEPTANCE WINDOW"), the Company may, subject to paragraph 1H, elect to accept such interest rate quotes as to

not less than $2,500,000 aggregate principal amount of the Term Notes specified in the related Request for Purchase, unless the Available Facility Amount at such time is less than $2,500,000, in which case the Company may elect to accept such interest rate quotes as to the then Available Facility Amount. Such election shall be made by an Authorized Officer of the Company notifying Prudential by telephone or telecopier within the Acceptance Window (but not earlier than 9:30 A.M. or later than 2:00 P.M., New York City local time) that the Company elects to accept such interest rate quotes, specifying the Term Notes (each such Term Note being herein called an "ACCEPTED NOTE") as to which such acceptance (herein called an "ACCEPTANCE") relates. The day the Company notifies an Acceptance with respect to any Accepted Notes is herein called the "ACCEPTANCE DAY" for such Accepted Notes. Any interest rate quotes as to which Prudential does not receive an Acceptance within the Acceptance Window shall expire, and no purchase or sale of Term Notes hereunder shall be made based on such expired interest rate quotes. Subject to paragraph 1H and the other terms and conditions hereof, the Company agrees to sell to Prudential or a Prudential Affiliate, and Prudential agrees to purchase, or to cause the purchase by a Prudential Affiliate of, the Accepted Notes at 100% of the principal amount thereof. Prior to the close of business on the Business Day next following the Acceptance Day, the Company, Prudential and each Prudential Affiliate which is to purchase any such Accepted Notes will execute a confirmation of such Acceptance substantially in the form of Exhibit C attached hereto (herein called a "CONFIRMATION OF ACCEPTANCE").

1H. MARKET DISRUPTION. Notwithstanding the provisions of paragraph 1G, if Prudential shall have provided interest rate quotes pursuant to paragraph 1F and thereafter prior to the time an Acceptance with respect to such quotes shall have been notified to Prudential in accordance with paragraph 1G there shall occur a general suspension, material limitation, or significant disruption of trading in securities generally on the New York Stock Exchange or in the market for U.S. Treasury securities and other financial instruments, then such interest rate quotes shall expire, and no purchase or sale of Term Notes hereunder shall be made based on such expired interest rate quotes. If the Company thereafter notifies Prudential of the Acceptance of any such interest rate quotes, such Acceptance shall be ineffective for all purposes of this Agreement, and Prudential shall promptly notify the Company that the provisions of this paragraph 1H are applicable with respect to such Acceptance.

1I. CLOSING. Not later than 11:30 A.M. (New York City local time) on the Closing Day for any Accepted Notes, the Company will deliver to each Purchaser listed in the Confirmation of Acceptance relating thereto at the Chicago offices of Prudential Capital Group, the Term Notes to be purchased by such Purchaser in the form of a single Accepted Note for the Accepted Notes which have exactly the same terms (or such greater number of Term Notes in authorized denominations as such Purchaser may request) dated the Closing Day and registered in such Purchaser's name (or in the name of its nominee), against payment of the purchase price thereof by transfer of immediately available funds for credit to the Company's account specified in the Request for Purchase of such Term Notes. If the Company fails to tender to any Purchaser the Accepted Notes to be purchased by such Purchaser on the scheduled Closing Day for such Accepted Notes as provided above in this paragraph 1I, or any of the conditions specified in paragraph 3B shall not have been fulfilled by the time required on such scheduled Closing Day, the Company shall, prior to 1:00 P.M., New York City local time, on such scheduled Closing Day notify such Purchaser in writing whether (x) such closing is to be rescheduled (such rescheduled date to be a Business Day during the Issuance Period not less than one Business Day and not more than

30 Business Days after such scheduled Closing Day (the "RESCHEDULED CLOSING DAY") and certify to such Purchaser that the Company reasonably believes that it will be able to comply with the conditions set forth in paragraph 3B on such Rescheduled Closing Day and that the Company will pay the Delayed Delivery Fee in accordance with paragraph 1J or (y) such closing is to be canceled as provided in paragraph 1K. In the event that the Company shall

fail to give such notice referred to in the preceding sentence, such Purchaser may at its election, at any time after 1:00 P.M., New York City local time, on such scheduled Closing Day, notify the Company in writing that such closing is to be canceled as provided in paragraph 1K.

1J. DELAYED DELIVERY FEE. If the closing of the purchase and sale of any Accepted Note is delayed for any reason beyond the original Closing Day for such Accepted Note, the Company will pay to Prudential on the last Business Day of each calendar month, commencing with the first such day to occur more than 30 days after the Acceptance Day for such Accepted Note and ending with the last such day to occur prior to the Cancellation Date or the actual closing date of such purchase and sale, and on the Cancellation Date or actual closing date of such purchase and sale (if such Cancellation Date or closing date occurs more than 30 days after the Acceptance Day for such Accepted Note), a fee (herein called the "DELAYED DELIVERY FEE") calculated as follows:

(BEY -MMY) x DTS/360 x PA

where "BEY" means Bond Equivalent Yield, i.e., the bond equivalent yield per annum of such Accepted Note, "MMY" means Money Market Yield, i.e., the yield per annum on an alternative investment selected by Prudential on the date Prudential receives notice of the delay in the closing for such Accepted Notes having a maturity date or dates the same as, or closest to, the Rescheduled Closing Day or Rescheduled Closing Days (a new alternative investment being selected by Prudential each time such closing is delayed); "DTS" means Days to Settlement, i.e., the number of actual days elapsed from and including the thirty-first day after the Acceptance Day for such Accepted Note (in the case of the first such payment with respect to such Accepted Note) or from and including the date of the next preceding payment (in the case of any subsequent delayed delivery fee payment with respect to such Accepted Note) to but excluding the date of such payment; and "PA" means Principal Amount, i.e., the principal amount of the Accepted Note for which such calculation is being made. In no case shall the Delayed Delivery Fee be less than zero. Nothing contained herein shall obligate any Purchaser to purchase any Accepted Note on any day other than the Closing Day for such Accepted Note, as the same may be rescheduled from time to time in compliance with paragraph 1I.

1K. CANCELLATION FEE. If the Company at any time notifies Prudential in writing that the Company is canceling the closing of the purchase and sale of any Accepted Note, or if Prudential notifies the Company in writing under the circumstances set forth in the last sentence of paragraph 1I that the closing of the purchase and sale of such Accepted Note is to be canceled, or if the closing of the purchase and sale of such Accepted Note is not consummated on or prior to the last day of the Issuance Period (the date of any such notification, or the last day of the Issuance Period, as the case may be, being herein called the "CANCELLATION DATE"), the Company will pay Prudential in immediately available funds an amount (the "CANCELLATION FEE") calculated as follows:

PI x PA

where "PI" means Price Increase, i.e., the quotient (expressed in decimals) obtained by dividing (a) the excess of the ask price (as determined by Prudential) of the Hedge Treasury Note(s) on the Cancellation Date over the bid price (as determined by Prudential) of the Hedge Treasury Notes(s) on the Acceptance Day for such Accepted Note by (b) such bid price. The foregoing bid and ask prices shall be as reported by Telerate Systems, Inc. (or, if such data for any reason ceases to be available through Telerate Systems, Inc., any publicly available source of similar market data). Each price shall be based on a U.S. Treasury security having a par value of $100.00 and shall be rounded to the second decimal place. In no case shall the Cancellation Fee be less than zero.

1L. TERM NOTE PREPAYMENTS. The Term Notes shall be subject to prepayment with respect to the required prepayments specified therein and also (i) in whole as provided in paragraph 5F hereof,

(ii) in whole or in part as provided in the Mortgage, it being contemplated that the Terms Notes shall upon issuance be secured thereby, and (iii) at the option of the Company as provided in paragraph 1L(1). In the event pursuant to the Mortgage proceeds from any insurance policy or taking or condemnation awards with respect to the Mortgaged Property (as defined in the Mortgage) shall be distributed to the holders of the Term Notes as a prepayment of the Term Notes, the Company shall pay interest on each Term Note on the amount so distributed with respect to such Term Note to the date of such distribution, together with the Yield-Maintenance Amount, if any, with respect to each Term Note. Any such distribution constituting a partial prepayment of the Term Notes shall be applied in proportion to the respective unpaid principal amounts thereof in satisfaction of required payments of principal in inverse order of their scheduled due dates.

1L(1). OPTIONAL PREPAYMENT WITH YIELD-MAINTENANCE AMOUNT. Each Series of Term Notes shall be subject to prepayment, in whole at any time or from time to time in part (in integral multiples of $100,000, and in the minimum amount of $1,000,000 per prepayment), at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each Term Note of such Series. The amounts so prepaid on each outstanding Term Note of such Series so prepaid shall be applied in satisfaction of required payments of principal in inverse order of their scheduled due dates.

1L(2). NOTICE OF OPTIONAL PREPAYMENT. The Company shall give the holder of each Term Note to be prepaid pursuant to paragraph 1L(1) irrevocable written notice of such prepayment not less than 30 days prior to the prepayment date, specifying such prepayment date, specifying the aggregate principal amount of the Term Notes of the same Series as such Term Note to be prepaid on such date, identifying each Term Note held by such holder, and the principal amount of each such Term Note, to be prepaid on such date and stating that such prepayment is to be made pursuant to paragraph 1L(1). Notice of prepayment having been given as aforesaid, the principal amount of the Term Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, herein provided, shall become due and payable on such prepayment date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to paragraph 1L(1), give telephonic notice of the principal amount of the Term Notes to be prepaid and the prepayment date to each Significant Holder which shall have designated a recipient for such notices in the Information Schedule attached hereto or by notice in writing to the Company.

1L(3). APPLICATION OF PREPAYMENTS. In the case of each prepayment of less than the entire unpaid principal amount of all outstanding Term Notes of any Series, the amount to be prepaid shall be allocated to all outstanding Term Notes of such Series (including, for the purpose of this paragraph 1L(3) only, all Term Notes of such Series prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates other than by payment of installments as stated therein or prepayment pursuant to the Mortgage, paragraph 1L(1) or paragraph 5F) in proportion to the respective unpaid principal amounts thereof.

1L(4). RETIREMENT OF TERM NOTES. The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated installments (other than by prepayment pursuant to the Mortgage, paragraph 1L(1), paragraph 5F or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Term Notes held by any holder, unless the Company or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of Term Notes of the same Series held by each other holder of Term Notes at the time outstanding upon the same terms and conditions. Any Term Notes so prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of

its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement, except as provided in paragraph 1L(3).

2. REVOLVING CREDIT FACILITY.

2A. THE REVOLVING LOANS. Subject to and upon the terms and conditions herein set forth, Prudential shall lend to the Company from time to time on any Business Day during the period from the

date hereof to the earlier to occur of (i) the date on which (A) the Company pays (other than pursuant to paragraph 2B(1)) in their entirety any Notes issued under this Agreement or any 1993 Notes, (B) Prudential or any Prudential Affiliate exercises its option to require prepayment in their entirety of any Notes issued under this Agreement or any 1993 Notes, or (c) any Notes issued under this Agreement or any 1993 Notes are otherwise prepaid in their entirety or required to be so prepaid, including without limitation by automatic acceleration, demand for payment or pursuant to the Mortgage, and (ii) June 15, 2000, or such later date or dates as Prudential and the Company shall agree pursuant to paragraph 2G (the "REVOLVING LOANS TERMINATION DATE") sums (each a "REVOLVING LOAN" and collectively the "REVOLVING LOANS") which in the aggregate principal amount outstanding shall not exceed at any one time $5,000,000 (such maximum aggregate amount being herein referred to as the "REVOLVING COMMITMENT"). Within the limits of the Revolving Commitment and subject to the terms and conditions herein set forth, the Company may borrow, prepay pursuant to paragraph 2B and reborrow under paragraph 2C.

The principal amount of each Revolving Loan shall be $100,000 or an integral multiple thereof. Revolving Loans shall be evidenced by an original senior secured revolving note of the Company or a replacement therefor as provided for herein in the form of Exhibit D hereto (each a "REVOLVING NOTE", collectively the "REVOLVING NOTES" and, together with the Term Notes, the "NOTES"). Each Revolving Note shall (i) be dated the date of this Agreement, (ii) be in a principal amount equal to the Revolving Commitment, (iii) bear interest with respect to the principal amount from time to time outstanding (x) from the date thereof until the principal thereof shall have become due and payable (whether by acceleration or otherwise) at the LIBOR Rate calculated as specified in paragraph 2F and (y) after such date until paid at a rate per annum which shall be the greater of 2% per annum in excess of the LIBOR Rate or 2% per annum in excess of the rate of interest publicly announced from time to time by Morgan Guaranty Trust Company of New York as its "prime rate", in each case calculated as provided in paragraph 2F and (v) be payable on or before the Revolving Loans Termination Date. Prudential shall maintain internal records showing each Revolving Loan made by Prudential hereunder and each principal payment thereon and shall note such information on the reverse side of the Revolving Note prior to any transfer thereof. If necessary to evidence any change in the provisions of this Agreement relating to the Revolving Note and agreed to in writing by Prudential and the Company, the Company shall furnish a replacement Revolving Note to Prudential in substitution for, but not in discharge of the liability evidenced by, the prior Revolving Note. Upon issuance of such replacement Revolving Note by the Company, Prudential shall return the previously outstanding Revolving Note to the Company.

2B. PREPAYMENTS OF REVOLVING NOTES.

2B(1). PREPAYMENT AT THE COMPANY'S OPTION. The Company shall have the right, upon at least two Business Days' prior written notice, to prepay in whole or in part, in amounts of $100,000 or integral multiples thereof, without premium, prior to the express maturity date thereof, any Revolving Note on any Business Day. Each notice of a prepayment under this paragraph 2B(1) shall specify the date and the principal amount of the prepayment.

2B(2). PREPAYMENT UNDER PARAGRAPH 5 OR THE MORTGAGE. The Revolving Notes shall be subject to prepayment (i) in whole as provided in paragraph 5 hereof, and (ii) in whole or in part as provided in the Mortgage. In the

event pursuant to the Mortgage proceeds from any insurance policy or taking or condemnation awards with respect to the Mortgaged Property (as defined in the Mortgage) shall be distributed as a prepayment of the Revolving Notes, the Company shall pay interest on each Revolving Note on the amount to be distributed with respect to such Note to the date of such distribution.

2C. MANNER OF BORROWINGS. Unless otherwise specifically provided in this Agreement, Prudential shall receive from the Company at least three Business Days' prior written, telex, telecopier or telegraphic notice of its intention to borrow hereunder, specifying the date on which it proposes to borrow (which shall be a LIBOR Business Day) and the principal amount of the proposed Revolving Loan. No later than 11:00 A.M. (New York City local time) on the Business Day prior to the date of the proposed Loan, the Company will deliver to Prudential a Revolving Note (unless an appropriate Revolving Note has been previously delivered), together with such other documents and papers as are

required under this Agreement, which materials shall be delivered to the address set forth on the Information Schedule (or to such other place or in such other manner as Prudential may by written notice to the Company designate from time to time). Upon receipt of such Revolving Note (if required), the notice provided for hereinabove, an Officer's Certificate as provided for in paragraph 3B and such other documentation as may be required, in form and substance satisfactory to Prudential, Prudential shall make the proceeds of such Revolving Loan available to the Company on the date of the proposed Revolving Loan designated in said notice by wire transfer for credit to the Company's account #6355002280 at Norwest Bank Minnesota, National Association, Norwest Center, 6th and Marquette, Minneapolis, Minnesota 55479-0069, ABA #091-000-019, or to such other account or place as the Company may hereafter designate by written notice to Prudential.

2D. NON-USAGE FEE. The Company shall pay to Prudential a non-usage fee on the amount, if any, by which the average daily outstanding balance of Revolving Loans during any full or partial calendar month from the date of this Agreement to and including the Revolving Loans Termination Date is less than the average daily amount of the Revolving Commitment during such month, at the rate of 1/2 of 1% per annum.

2E. CANCELLATION OF COMMITMENT. At any time on or after June 15, 1994, the Company shall have the right, upon at least 90 days' prior written notice and upon prepayment of all Revolving Loans, to cancel the Revolving Commitment. Upon such cancellation, no further Revolving Loans shall be made pursuant to paragraph 2A and no further non-usage fees shall be payable pursuant to paragraph 2D.

2F. INTEREST AND NON-USAGE FEE PAYMENTS. Interest and non-usage fees in connection with the Revolving Loans for any month shall be payable in arrears on the first Business Day of the following month and shall be calculated on the basis of actual days outstanding during the month (exclusive of any days for which payment was made in the preceding payment) plus the number of days after such period to but not including the payment day and on the basis of a year of 360 days. If any interest or non-usage fee on any Revolving Loan is not paid when due, interest thereon at the default rate applicable to such Revolving Loan specified in paragraph 2A shall be payable from and including the due date until paid.

2G. EXTENSION OF REVOLVING LOANS TERMINATION DATE. If agreed in writing by Prudential and the Company prior to one year in advance of the Revolving Loans Termination Date or any extension thereof, the Revolving Loans Termination Date shall be extended for one year. No Revolving Loans shall be made after the Revolving Loans Termination Date.

2H. ILLEGALITY. If it shall become unlawful for United States banks to obtain funds in the London interbank market, or if Prudential is otherwise unable to make or maintain Revolving Loans hereunder utilizing the LIBOR Rate, upon at least five Business Days' notice by Prudential to the Company

the rate of interest per annum on all Revolving Loans shall be the Adjusted Commercial Paper Rate.

3. CONDITIONS PRECEDENT.

3A. CONDITIONS TO AVAILABILITY OF FACILITY AND REVOLVING COMMITMENT. The availability of the Facility pursuant to paragraph 1, and the obligation of Prudential to make Revolving Loans available to the Company pursuant to paragraph 2, are subject to the satisfaction of the following conditions on the date of this Agreement:

3A(1). OPINION OF PURCHASERS' SPECIAL COUNSEL. Prudential shall have received from Faegre & Benson, who are acting as special counsel for Prudential in connection with this transaction, a favorable opinion satisfactory to Prudential as to such matters incident to the matters herein contemplated as it may reasonably request.

3A(2). OPINION OF COMPANY'S COUNSEL. Prudential shall have received (i) from Briggs and Morgan, special counsel for the Company, a favorable opinion satisfactory to Prudential and substantially in the form of Exhibit E-1 attached hereto, and (ii) from Joseph D. Bizzano, Jr., General Counsel to the

Company and counsel to Manager, a favorable opinion satisfactory to Prudential and substantially in the form of Exhibit B-2 attached hereto. The Company hereby directs each such counsel to deliver such opinion, agrees that the delivery by the Company of an appropriate Revolving Note or Revolving Notes will constitute a reconfirmation of such direction, and understands and agrees that Prudential will and is hereby authorized to rely on each such opinion.

3A(3). PURCHASE OF ASSETS. The Company shall have acquired the Project from ECPLP pursuant to the terms and conditions of the Master Purchase Agreement, a copy of which has been delivered to Prudential. All counsel rendering opinions to the Company pursuant to the Master Purchase Agreement shall have named Prudential as an additional addressee of such opinions or shall have otherwise consented to reliance thereon by Prudential.

3A(4). MANAGEMENT AGREEMENT. The Company shall have entered into a management agreement (the "Management Agreement") with Manager in form and substance acceptable to Prudential.

3A(5). SECURITY.

(i) The Company shall have executed and delivered to the Collateral Agent, as security for the Revolving Note or Revolving Notes, a Combination Mortgage, Security Agreement and Fixture Financing Statement substantially in the form of Exhibit F hereto attached (as from time to time amended, the "Mortgage").

(ii) Prudential, the holders of the 1993 Notes and the Collateral Agent shall have executed and delivered a Collateral Agency and Intercreditor Agreement (as from time to time amended to add additional parties thereto and as otherwise amended from time to time, the "Collateral Agency Agreement"), and the Company shall have executed and delivered an Acknowledgment and Agreement to be appended thereto (the "Acknowledgment"), all substantially in the form of Exhibit G hereto attached.

3A(6). CAPITALIZATION. The capital structure of the Company shall be acceptable to Prudential. Without limiting the generality of the foregoing, the Company shall have (i) received on or prior to the date of closing cash contributions to its capital in an aggregate amount not less than the greater of (1) $20,000,000, or (2) an amount equal to 20% of Total Capitalization, and (ii) delivered to Prudential an Officer's Certificate, dated the date of this Agreement, to such effect.

3A(7). REPORTS OF CONSULTANTS. The Company shall have received a report or reports in form and substance satisfactory to Prudential from (i) the Engineer, as to matters described in The Scope of Services Agreement for Engineering Services appended to the letter agreement dated March 15, 1993 by the Engineer in favor of NRG and such other matters as the Engineer shall have been engaged to address, and (ii) Twin City, as to certain storage tank matters. Each of the Consultants shall have named Prudential as an additional addressee of such reports or shall have otherwise consented to reliance thereon by Prudential.

3A(8). TITLE INSURANCE. The Collateral Agent shall have received from Commonwealth a policy of mortgagee's title insurance in an amount not less than $89,000,000, which insurance (i) shall designate the Collateral Agent as insured, (ii) shall be substantially in conformity with Exhibit H (the "Title Insurance Commitment") and (iii) shall be underwritten with reinsurance in a manner and to an extent satisfactory to Prudential.

3A(9). OTHER INSURANCE. Prudential shall have been provided with certificates and such other evidence as Prudential may reasonably request indicating that the Company is in compliance with the requirements of paragraph 5E, including without limitation the insurance consultant's certificate required pursuant to paragraph 9 of the Mortgage.

3A(10). ESTOPPEL CERTIFICATES. The Company shall have obtained estoppel certificates in form and substance satisfactory to Prudential with respect to (i) any of the existing Service Contracts as to which Prudential may require such an estoppel certificate, (ii) the building lease covering the Soo Line facility, (iii) the ground lease covering the Convention Center facility, (iv) the air rights lease covering the

Target Arena facility, and (v) the agreement covering the Baker Plant. The estoppel certificates referred to in the foregoing clauses (ii) through and including (v) shall contain an express consent to the collateral assignment thereof contained in the Mortgage, and the estoppel certificate referred to in the foregoing clause (ii) shall contain the consent of the lessor's mortgagee.

3A(11). LIEN SEARCHES. Prudential shall have received such Uniform Commercial Code, tax lien, judgment and bankruptcy searches and real estate title reports against the Company and ECPLP as Prudential may request, certified by reporting services satisfactory to Prudential, and disclosing no security interests, liens or other encumbrances other than those permitted under paragraph 6B(l).

3A(12). PROCEEDINGS. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and by the Master Purchase Agreement and all documents incident thereto shall be satisfactory in substance and form to Prudential, and Prudential shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3A(13). EXISTING INDEBTEDNESS. The Indebtedness of ECPLP evidenced by promissory notes issued pursuant to the Existing Loan Agreements shall have been paid in whole in accordance with the terms of the Existing Loan Agreements or on other terms acceptable to the holders of such notes.

3A(14). NOTE AGREEMENT. The Company shall have entered into a Note Agreement (as from time to time amended, the "Note Agreement") with Prudential, Connecticut General Life Insurance Company, The North Atlantic Life Insurance Company of America, Northwestern National Life Insurance Company, Allegiance Insurance Company, and Connecticut General Life Insurance Company, on behalf of one or more separate accounts, in form and substance acceptable to Prudential.

3B. CONDITIONS OF EACH TERM NOTE CLOSING. The obligation of any Purchaser to purchase and pay for any Accepted Notes is subject to the

satisfaction, on or before the Closing Day for such Accepted Notes, of the following conditions:

3B(1). TERM NOTES. There shall have been delivered to such Purchaser an appropriate Term Note or Term Notes duly completed and executed.

3B(2). REPRESENTATIONS AND WARRANTIES; NO DEFAULT. The representations and warranties contained in paragraph 8 shall be true on and as of such Closing Day, except to the extent of changes caused by the transactions herein contemplated and to the extent such representations and warranties by their express terms relate solely to an earlier date; there shall exist on such Closing Day no Event of Default or Default; and the Company shall have delivered to such Purchaser an Officer's Certificate, dated such Closing Day, to both such effects. In addition to the foregoing, the Company shall include in the Officer's Certificate delivered pursuant to the next preceding sentence further representations and warranties to the following effects:

(i) the latest financial statements delivered by the Company pursuant to paragraphs 5A(i) and 5A(ii) (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company required to be shown in accordance with such principles; the balance sheets fairly present the condition of the Company as of the dates thereof, and the statements of income, stockholders' equity and cash flows fairly present the results of operations of the Company and its cash flows for the periods indicated; and there has been no material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project since the date of the most recent balance sheet furnished pursuant to paragraph 5A(i) or 5A(ii);

(ii) there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or the Project, or any properties or rights of the

Company or the Project, by or before any court, arbitrator or administrative or governmental body which might result in any material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project;

(iii) the Company has filed all federal, state and other income tax returns which, to the knowledge of the officers of the Company, are required to be filed, and has paid all taxes shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles;

(iv) each of the Company and Manager has procured and is in possession of all licenses, permits or registrations required by federal, state or local laws for the ownership, operation and maintenance of the Project, as the case may be;

(v) the Company and all of its properties and facilities (including without limitation the Project) have complied at all times and in all respect with all Environmental Laws except, in any such case, where failure to comply would not result in a material adverse effect on the business, properties or assets, condition (financial or otherwise) or operations of the Company or the

Project; and

(vi) in accordance with the provisions of the Collateral Agency Agreement, all actions required to subject such Accepted Notes and the holders thereof thereto and to cause such Accepted Notes to be secured by the Mortgage have been taken.

3B(3). PURCHASE PERMITTED BY APPLICABLE LAWS. The purchase of and payment for the Accepted Notes to be purchased by such Purchaser on the terms and conditions herein provided (including the use of the proceeds of the Accepted Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation G, T or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may request to establish compliance with this condition.

3B(4). LEGAL MATTERS. Counsel for such Purchaser, including any special counsel for the Purchasers retained in connection with the purchase and sale of such Accepted Notes, shall be satisfied as to all legal matters relating to such purchase and sale, and such Purchaser shall have received from such counsel favorable opinions as to such legal matters as it may request.

3B(5). PROCEEDINGS. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and it shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3B(6). CHANGE IN THE COMPANY'S CONDITION. There shall not have occurred or be threatened (i) a material and adverse change in the Company's financial position, or (ii) any condition, event or act which would materially and adversely affect the Project, the Company's business or its ability to repay any Accepted Note.

3B(7). SUBSEQUENT OPINIONS, ETC. Such Purchaser shall have received (i) from Briggs and Morgan, special counsel for the Company (or such other counsel as shall be acceptable to such Purchaser), a favorable opinion in form and substance satisfactory to such Purchaser, which opinion shall be substantially in the form of Exhibit I hereto as to the matters covered thereby and shall cover such additional matters incident to the purchase of such Accepted Note and the transactions contemplated by this Agreement as such Purchaser shall reasonably specify, and (ii) such other approvals or documents as such Purchaser may reasonably request.

3C. CONDITIONS PRECEDENT TO EACH REVOLVING LOAN. Prudential's obligation to make each Revolving Loan to the Company is subject to the satisfaction of the following conditions:

3C(1). REVOLVING NOTES. There shall have been delivered to Prudential an appropriate Revolving Note or Revolving Notes duly completed and executed.

3C(2). REPRESENTATIONS AND WARRANTIES; NO DEFAULT. The representations and warranties contained in paragraph 8 shall be true on and as of the date of such Revolving Loan, except to the extent of changes caused by the transactions herein contemplated and to the extent such representations and warranties by their express terms relate solely to an earlier date; there shall exist on the date of such Revolving Loan no Event of Default or Default; and the Company shall have delivered to Prudential an Officer's Certificate, dated the date of such Revolving Loan, to both such effects. In addition to the foregoing, the Company shall further include in the Officer's Certificate delivered pursuant to the next preceding sentence further representations and warranties to the following effects:

(i) the latest financial statements delivered by the Company

pursuant to paragraphs 5A(i) and 5A(ii) (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company required to be shown in accordance with such principles; the balance sheets fairly present the condition of the Company as of the dates thereof, and the statements of income, stockholders' equity and cash flows fairly present the results of operations of the Company and its cash flows for the periods indicated; and there has been no material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project since the date of the most recent balance sheet furnished pursuant to paragraph 5A(i) or 5A(ii);

(ii) there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or the Project, or any properties or rights of the Company or the Project, by or before any court, arbitrator or administrative or governmental body which might result in any material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project;

(iii) the Company has filed all federal, state and other income tax returns which, to the knowledge of the officers of the Company, are required to be filed, and has paid all taxes shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles;

(iv) each of the Company and Manager has procured and is in possession of all licenses, permits or registrations required by federal, state or local laws for the ownership, operation and maintenance of the Project, as the case may be; and

(v) the Company and all of its properties and facilities (including without limitation the Project) have complied at all times and in all respects with all Environmental Laws except, in any such case, where failure to comply would not result in a material adverse effect on the business, properties or assets, condition (financial or otherwise) or operations of the Company or the Project.

Each of the giving of the applicable notice of borrowings pursuant to paragraph 2C and the acceptance by the Company of the proceeds of such Revolving Loan shall constitute a representation and warranty by the Company to all such effects on the date of such Revolving Loan.

3C(3). REVOLVING LOAN PERMITTED BY APPLICABLE LAWS. The Revolving Loan (including the use of the proceeds of such Revolving Loan by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, section 5 of the Securities Act or Regulation G, T or X of the Board of Governors of the Federal Reserve System) and shall not subject Prudential to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and Prudential shall have received such certificates or other evidence as it may request to establish compliance with this condition.

3C(4). LEGAL MATTERS. Prior to the initial Revolving Loan hereunder, Prudential's counsel, including any special counsel retained by it in

connection with the purchase and sale of the Revolving Notes, shall be satisfied as to all legal matters relating to such purchase and sale, and Prudential shall have received from such counsel favorable opinions as to such legal matters as it may request.

3C(5). PROCEEDINGS. Prior to the initial Revolving Loan hereunder, all corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to Prudential, and Prudential shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3C(6). CHANGE IN THE COMPANY'S CONDITION. There shall not have occurred or be threatened (i) a material and adverse change in the Company's financial position, or (ii) any condition, event or act which would materially and adversely affect the Project, the Company's business or its ability to repay any Revolving Loan.

3C(7). SUBSEQUENT OPINIONS, ETC. If Prudential so requires as a condition precedent to the making of any Revolving Loan, Prudential shall have received (i) from Briggs and Morgan, special counsel for the Company (or such other counsel as shall be acceptable to Prudential), a favorable opinion in form and substance satisfactory to Prudential covering such matters incident to such Revolving Loan and the transactions contemplated by this Agreement as Prudential shall reasonably specify, and (ii) such other approvals or documents as Prudential may reasonably request.

4. [INTENTIONALLY OMITTED]

5. AFFIRMATIVE COVENANTS.

5A. FINANCIAL STATEMENTS. The Company covenants that it will deliver to each Significant Holder in triplicate:

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period in each fiscal year (including the fourth quarterly period), statements of income, stockholders' equity and cash flows of the Company for the period from the beginning of the current fiscal year to the end of such quarterly period, and a balance sheet of the Company as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and satisfactory in form to the Required Holder(s) of the Revolving Notes and the Term Notes of each Series and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments and, in the case of the fourth quarterly period only, a detailed financial budget for, at minimum, the then current fiscal year;

(ii) as soon as practicable and in any event within 120 days after the end of each fiscal year, statements of income and cash flows and a statement of stockholders' equity of the Company for such year, and a balance sheet of the Company as at the end of such year, setting forth in each case in comparative form corresponding figures from the preceding annual audit, all in reasonable detail and satisfactory in form to the Required Holder(s) of the Revolving Notes and of the Term Notes of each Series and reported on by independent public accountants of recognized national standing selected by the Company whose report shall be without limitation as to scope of the audit and satisfactory in substance to the Required Holder(s) of the Revolving Notes and of the Term Notes of each Series;

(iii) promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its public stockholders and copies of all registration statements (without exhibits) and all reports

which it files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission);

(iv) promptly upon receipt thereof, a copy of each other report submitted to the Company by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company; and

(v) with reasonable promptness, such other financial data as such Significant Holder may reasonably request.

Together with each delivery of financial statements required by clause (i) above, the Company will deliver to each Significant Holder (A) a copy of each Service Agreement or renewal thereof entered into by the Company during the quarterly period to which such financial statements relate, and (B) an Officer's Certificate identifying each Service Contract which terminated and was not renewed during such quarterly period. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to each Significant Holder an Officer's Certificate demonstrating (with computations in reasonable detail) compliance by the Company with the provisions of paragraphs 6B(2) and 6B(5), and stating that there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to each Significant Holder (A) a schedule of Service Contracts in force as of the end of the fiscal year to which such financial statements relate (which schedule shall specify the termination date of each such Service Contract and the actual demand for and consumption of services pursuant to each such Service Contract during such fiscal year in terms of aggregate amounts paid by the customer therefor and aggregate volume per customer), and (B) a certificate of the accountants reporting on such financial statements stating that, in making the audit necessary for their report on such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature and period of existence thereof. Such accountants, however, shall not be liable to anyone by reason of their failure to obtain knowledge of any Event of Default or Default which would not be disclosed in the course of an audit conducted in accordance with generally accepted auditing standards. The Company also covenants that immediately after any Responsible Officer obtains knowledge of an Event of Default or Default, it will deliver to each Significant Holder an Officer's Certificate specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto.

5B. INFORMATION REQUIRED BY RULE 144A. The Company covenants that it will, upon the request of the holder of any Note, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule l44A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act. For the purpose of this paragraph 5B, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

5C. INSPECTION OF PROPERTY. The Company covenants that it will permit any Person designated by any Significant Holder in writing, at such Significant Holder's expense, to visit and inspect any of the properties of the Company, to examine the corporate books and financial records of the Company and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of the Company with the principal officers of the Company and its independent public accountants, all at such reasonable times and as often as such Significant Holder may reasonably request, it being understood that such Significant Holder shall direct such Person to use

its best efforts to hold in confidence and not disclose any Confidential Information except to such Significant Holder or to any party to which such Significant Holder would be permitted to disclose such Confidential Information pursuant to paragraph 11H.

5D. AGREEMENT ASSUMING LIABILITY ON NOTES. The Company covenants that, if at any time any Person should become liable (as co-obligor, endorser, guarantor or surety) on any other obligation of the Company for borrowed money, the Company will, at the same time, cause such Person to deliver to each holder of Notes an agreement pursuant to which such Person becomes similarly liable on the Notes.

5E. MAINTENANCE OF INSURANCE. The Company covenants that it will maintain the insurance required to be maintained pursuant to the Mortgage, and together with each delivery of financial statements under clause (ii) of paragraph 5A, it will, upon the request of any Significant Holder, deliver to each Significant Holder an Officer's Certificate specifying the details of such insurance in effect.

5F. PAYMENT IF CONTROL CHANGES. The Company covenants that, in the event that at any time (i) NRG shall directly own less than a Controlling Interest in the Company or the Manager, and as a result thereof the Company or the Manager shall become subject to regulation under the Public Utility Holding Company Act of 1935, as amended, or the Federal Power Act, as amended, or otherwise as a public utility under federal law or the law of the State of Minnesota, or (ii) NSP shall own, directly or indirectly, less than a Controlling Interest in NRG, the Company or the Manager, then in either case the Company will promptly give to each holder of a Note written notice thereof and will, upon the demand of the Required Holder(s) of the Term Notes of any Series or of the Revolving Notes in writing given to the Company within 30 days after such notice, prepay the Term Notes of such Series or the Revolving Notes (as the case may be) in whole together with interest accrued thereon to the prepayment date, non-usage fees in connection therewith (in the case of the Revolving Notes) and together with the Yield-Maintenance Amount, if any, with respect to each Term Note of such Series (in the case of Term Notes), on the date specified in such demand, which shall be not less than 30 days after such demand.

5G. RIGHTS UNDER PURCHASE DOCUMENTS. The Company covenants that it will enforce all material rights under the Purchase Documents, including but not limited to its indemnification rights.

5H. NOTICE OF DEFAULTS AND VIOLATIONS. The Company covenants that it will give each holder of a Note written notice within seven (7) Business Days of:

5H(1). DEFAULTS. Receipt by the Company of (i) oral or written notice of breach or default by the Company or Manager under the Management Agreement, (ii) written notice of default by the Company under any agreement for the sale of steam, hot water and/or chilled water produced by the Project, whether now existing or entered into after the date hereof (such agreements being referred to herein as "Service Contracts"), including without limitation the Service Agreements (as defined in the Personal Property Agreement), (iii) written notice of material default by the Company under, or termination or revocation of any easements, permits, supply contracts, leases or similar agreements comprising part of or benefiting the Project, whether now existing or created after the date hereof, including without limitation the Easements (as referred to in the Real Property Agreement), the Environmental Permits, the Encroachment Permits, the Miscellaneous Permits, the Supply Contracts and the Leases (each such capitalized term as defined in the Personal Property Agreement), including the building lease covering the 500 Line facility, the ground lease covering the Convention Center facility, the air rights lease covering the Target Arena facility, and the agreement covering the Baker Plant.

5H(2). VIOLATIONS. Receipt by the Company of oral or written notice of

any material violation by the Company or Manager, in connection with the ownership, operation and maintenance of the Project, of (i) the terms or conditions of any license, permit or registration required by federal, state or local laws for the ownership, operation and maintenance of the Project, or (ii) any Environmental Laws.

5I. MAINTENANCE OF LICENSES, PERMITS AND REGISTRATIONS. The Company covenants that it will take, and will require Manager to take all action to maintain all licenses, permits and registrations required by federal, state or local laws for the ownership, operation and maintenance of the Project.

5J. ACTION REGARDING LICENSES, ETC. AND ENVIRONMENTAL MATTERS. With respect to any license, permit, exemption or registration in respect of which further action is hereafter appropriate (as reflected in paragraph 8N), the Company covenants that it will use its best efforts to accomplish such action as promptly hereafter as practicable. With respect to any environmental matter in respect of which remedial or other action is required (as reflected in paragraph 8S), the Company covenants that it will use its best efforts to accomplish such action as promptly hereafter as practicable.

6. NEGATIVE COVENANTS.

6A. FEES LIMITATION. The Company covenants (i) that the Management Fee shall be the sole compensation payable by the Company to Manager for the services rendered by Manager pursuant

to the Management Agreement, and (ii) that the Management Fee shall not be paid except out of Operating Income remaining after payment of (A) accrued interest on the Notes and the other Debt permitted by paragraph 6B(2), and (B) required prepayments of principal of the Notes and the other Debt permitted by paragraph 6B(2). Nothing herein contained shall prohibit the payment of such fees during the course of the year pending the determination of Operating Income, subject to the repayment obligations of Manager contained in the Management Agreement.

6B. LIEN, DEBT AND OTHER RESTRICTIONS. The Company covenants that it will not

6B(1). LIENS. Create, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired, except:

(i) Liens under the Mortgage in the favor of the Collateral Agent, which Liens shall secure equally and ratably the 1993 Notes and the Debt permitted by the provisions of clauses (ii) and (iii) of paragraph 6B(2);

(ii) existing Liens which were not incurred in connection with the borrowing of money or the obtaining of advances of credit and which are listed in Schedule B to the Title Insurance Commitment or in Exhibit B to the Mortgage;

(iii) Liens for taxes not yet due or which are being actively contested in good faith by appropriate proceedings; and

(iv) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not or are not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business.

6B(2). DEBT. Create, incur, assume or suffer to exist any Funded Debt or Current Debt, except:

(i) Funded Debt represented by the 1993 Notes;

(ii) additional Funded Debt, including without limitation Funded Debt represented by Term Notes, provided that the Company shall not create, incur or assume any such Funded Debt unless (A) as of the end of the fiscal quarter most recently completed at the time such Funded Debt is proposed to be created, incurred or assumed, and as of the end of each of the eleven consecutive fiscal quarters completed immediately prior thereto, Operating Income Available for Debt Expense for the immediately preceding twelve-month period shall have been not less than 125 % of Debt Expense for such twelve-month period, (B) upon giving effect thereto and the application of the proceeds thereof, on a pro forma projected basis (such projections to fairly present the Company's proposed business plans and the Company's good faith estimate as to matters projected therein based on reasonable business assumptions, and to be reasonably based on such assumptions and the best information available to the officers of the Company) as of the end of each fiscal year thereafter ending through and including the fiscal year ending December 3.1, 2013, Operating Income Available for Debt Expense for the immediately preceding twelve-month period shall be projected to be not less than 135% of Debt Expense for such twelve-month period, (C) the proceeds of such Funded Debt shall be used exclusively to acquire assets which will constitute part of the Project and the amount of such Funded Debt shall not exceed 80% of the lesser of the cost or the fair value of the assets to be acquired with the proceeds thereof, such fair value to be reasonably established by the board of directors of the Company, (D) the terms of such Funded Debt shall (1) with respect to Funded Debt other than Funded Debt represented by Term Notes, include a maturity date which shall be on or after June 15, 2013, (2) require payment in equal quarterly installments of principal and interest from incurrence through maturity (i.e., quarterly mortgage-style amortization) and (3) not be amended after issuance with respect to interest rate or payment terms without the consent of the Required Holder(s), and (E) in accordance with the provisions

of the Collateral Agency Agreement, such Funded Debt shall become subject thereto and secured by Liens under the Mortgage in favor of the Collateral Agent and any holder of such Funded Debt not already a party thereto shall become a party thereto; and

(iii) Current Debt evidenced by the Revolving Note or Revolving Notes, provided that the Company shall be free of all such Current Debt for a period of 60 consecutive days in each calendar year commencing with the calendar year ending December 31,1994.

6B(3). LOANS, ADVANCES, INVESTMENTS AND CONTINGENT LIABILITIES. Make or permit to remain outstanding any loan or advance to, or guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person (including any corporation proposed to be acquired or created as a Subsidiary), except that the Company may

(i) own, purchase or acquire (x) prime taxable and tax-exempt commercial paper rated "P-1" or better by Moody's Investors Service, Inc. or "A-1" or better by Standard & Poor Corporation and certificates of deposit in United States commercial banks having capital resources in excess of $250,000,000 and (y) obligations of the United States Government or any agency thereof in each case due within one year from the date of

purchase;

(ii) own, purchase or acquire shares of mutual funds that invest exclusively in commercial paper, certificates of deposit and obligations of the type described in the foregoing clause (i) or other readily marketed corporate debt due within one year from the date of purchase, provided such investments are rated "Aa3" or better by Moody's Investors Service, Inc. or "AA-" or better by Standard & Poor Corporation;

(iii) endorse negotiable instruments for collection in the ordinary course of business;

(iv) make or permit to remain outstanding travel and other like advances to officers and employees in the ordinary course of business; and

(v) make or permit to remain outstanding loans or advances to, or own, purchase or acquire stock, obligations or securities of, any other Person (other than any corporation or other Person proposed to be acquired or created as a Subsidiary, it being understood that the acquisition or creation of any such Subsidiary by the Company is expressly prohibited hereby), provided that the aggregate principal amount of such loans and advances, plus the aggregate amount of the investment (at original cost) in such stock, obligations and securities, shall not exceed $2,500,000 at any time outstanding.

6B(4). MERGER AND SALE OF ASSETS. Merge or consolidate with any other corporation or sell, lease or transfer or otherwise dispose of all or a substantial part (i.e., assets which individually or taken as a whole (i) are an integral part of the Project, (ii) constitute more than 10% of the assets of the Company, or (iii) have contributed more than 10% of Operating Income of the Company or ECPLP for any of the three fiscal years then most recently ended) of its assets to any Person.

6B(5). LEASE RENTALS. Enter into, or permit to remain in effect, any agreements to rent or lease (as lessee) any real or personal property, for initial terms (including options to renew or extend any term, whether or not exercised) of more than one year providing for payments by the Company to lessors during any period of 12 consecutive calendar months in excess of the following aggregate amounts per annum:

(i) through and including December 31, 1993, $500,000 (the initial "Rent Limit"); and

(ii) thereafter, and through and including December 31 of each year thereafter, an amount equal to the product of the Rent Limit for the immediately preceding twelve-month period multiplied by a fraction, the numerator of which shall be the CPI for the last month of such immediately preceding twelve-month period and the denominator of which shall be the CPI for the month immediately preceding such twelve-month period.

6B(6). SALE OR DISCOUNT OF RECEIVABLES. Sell with recourse, or discount or otherwise sell for less than the face value thereof, any of its notes or accounts receivable.

6B(7). CERTAIN CONTRACTS. Enter into or be a party to any contract for the purchase of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services shall be made regardless of whether or not delivery of such materials, supplies or other property or services is ever made or tendered, except that the Company may enter into "take or pay" contracts with Persons not affiliated with the Company for the purchase of oil or natural gas to be consumed in the operation of the Project, provided

that (i) no such contract has a term exceeding five years and (ii) the aggregate purchase obligations under all such contracts for any twelve-month period do not exceed 100% of the estimated fuel consumption for such period.

6B(8). SALE AND LEASE-BACK. Enter into any arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by the Company of real or personal property which has been or is to be sold or transferred by the Company to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Company.

6B(9). TRANSACTIONS WITH AFFILIATES. Except on terms no less favorable to the Company than would be obtainable if no such relationship existed, and except with respect to the Management Agreement and to tax-sharing arrangements between the Company and any of its Affiliates (provided that giving effect to such tax-sharing arrangements the Company shall not be required to pay taxes in an amount in excess of that for which it would be liable, assuming the application of the highest marginal tax rate paid by the Company and its Affiliates on a consolidated basis, if it were to file its own separate tax returns), directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise deal with, in the ordinary course of business or otherwise, any Affiliate.

6C. AMENDMENT OF MANAGEMENT AGREEMENT. The Company covenants that it will not, without the prior written consent of the Required Holder(s) of the Revolving Notes and of the Term Notes of each Series, amend or waive enforcement of any provision of the Management Agreement, terminate or permit the Management Agreement to be terminated, assign its rights and obligations under the Management Agreement, or permit Manager to assign its rights and obligations under the Management Agreement.

6D. MAINTENANCE OF PRESENT BUSINESS. The Company covenants that it will not, without the prior written consent of the Required Holder(s) of the Revolving Notes and of the Term Notes of each Series, engage in any business other than the ownership, operation and maintenance of the Project.

7. EVENTS OF DEFAULT.

7A. ACCELERATION. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal of or Yield-Maintenance Amount payable with respect to any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) the Company defaults in the payment of any interest on any Note or any non-usage fee for more than 10 days after the date due; or

(iii) the Company defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capital Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto, or the Company fails to perform or observe any other

agreement, term or condition contained in any agreement under which any such obligation is created (or if any other event

thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, any such obligations in an aggregate principal amount exceeding $500,000 to become due (or to be repurchased by the Company) prior to the stated maturity thereof; or

(iv) any representation or warranty made by the Company herein or in the Notes, the Mortgage or the Acknowledgment or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement, the Notes, the Mortgage or the Acknowledgment shall be false in any material respect on the date as of which made (it being understood that, notwithstanding that certain representations and warranties of the Company set out in paragraphs 8B(1), 8Q and 8S hereof are qualified as to the knowledge of the Company, such representations and warranties shall be deemed to have been made without such qualification for purposes of this clause iv)); or

(v) the Company fails to perform or observe the agreements contained in paragraphs 5D, 5F, 5H or 5I or any agreement contained in paragraph 6; or

(vi) the Company fails to perform or observe any other agreement, term or condition contained herein or in the Notes, the Mortgage or the Acknowledgment and such failure shall not be remedied within 30 days after any Responsible Officer obtains actual knowledge thereof; or

(vii) the Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(viii) any decree or order for relief in respect of the Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the "BANKRUPTCY LAW"), of any jurisdiction; or

(ix) the Company petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company, or of any substantial part of the assets of the Company, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings relating to the Company under the Bankruptcy Law of any other jurisdiction; or

(x) any such petition or application is filed, or any such proceedings are commenced, against the Company and the Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) any order, judgment or decree is entered in any proceedings against the Company decreeing a split-up of the Company which requires the divestiture of assets representing a substantial part of the assets of the Company (determined in accordance with generally accepted accounting principles) or which requires the divestiture of assets which shall have contributed

a substantial part of the net income of the Company or ECPLP (determined in accordance with generally accepted accounting principles) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xiii) a final judgment in an amount in excess of $250,000 is rendered against the Company and, within 60 days after entry thereof, such judgment is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xiv) the Company, in its capacity as an employer under a Multiemployer Plan, makes a complete or partial withdrawal from such Multiemployer Plan resulting in the incurrence by the Company of a withdrawal liability in an amount exceeding $500,000, or any ERISA Affiliate, in its capacity as an employer under a Multiemployer Plan, makes a complete or partial withdrawal from such Multiemployer Plan resulting in the incurrence by such ERISA Affiliate of a withdrawal liability in an amount exceeding $10,000, if the incurrence by such ERISA Affiliate of such withdrawal liability has a material and adverse effect on the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project; or

(xv) there shall occur any other "Event of Default" under the Mortgage, as such term is defined therein; or

(xvi) there shall occur any other "Event of Default" under the Note Agreement, as such term is defined therein;

then (a) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, any holder of any Note with respect to which payment has not been made (other than the Company or any if its Affiliates) may at its option, during the continuance of such Event of Default, by notice in writing to the Company, declare all of the Notes held by such holder to be, and all of the Notes held by such holder shall thereupon be and become, immediately due and payable at par together with interest accrued thereon, non-usage fees in connection therewith (in the case of Revolving Notes), and together with the Yield-Maintenance Amount, if any, with respect to each such Note (in the case of Term Notes), without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, (b) if such event is an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A, all of the Notes at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, (c) if such event is any other Event of Default, the Required Holder(s) of the Term Notes of any Series or of the Revolving Notes may at its or their option during the continuance of such Event of Default, by notice in writing to the Company, declare all of the Term Notes of such Series or of the Revolving Notes (as the case may be) to be, and all of the Term Notes of such Series or of the Revolving Notes (as the case may be) shall thereupon be and become, immediately due and payable together with interest accrued thereon, non-usage fees in connection therewith (in the case of Revolving Notes) and together with the Yield-Maintenance Amount, if any, with respect to each Term Note of such Series (in the case of Term Notes), without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, and (d) if any Note shall have been declared to be due and payable pursuant to clause (c) above (and such declaration shall not have been rescinded pursuant to paragraph 7B), any holder of any other Note may at any time thereafter, regardless of whether any Event of Default shall at such time be continuing, by notice in writing to the Company, declare all of the Notes held by such holder to be, and all of the Notes held by such holder shall thereupon be and become, immediately due and payable together with interest accrued thereon,

non-usage fees in connection therewith (in the case of Revolving Notes) and together with the Yield-Maintenance Amount, if any, with respect to each such Note (in the case of Term Notes), without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, provided that the Yield-Maintenance Amount, if any, with respect to each Term Note shall be due and payable upon any declaration pursuant to this paragraph 7A only if (x) the event whose occurrence permits such declaration is an Event of Default specified in any of clauses (i) to (vi), inclusive, of this paragraph 7A, (y) the Required Holder(s) of the Term Notes of any Series (whether or not of the same Series as the Term Notes the maturity of which shall have been accelerated by such declaration) shall have given to the Company, at least 10 Business Days before such declaration, written notice stating its or their intention to declare or join in declaring the Notes held by such Required Holder(s) (or all of the

Notes of such Series) to be immediately due and payable and identifying one or more such Events of Default whose occurrence on or before the date of such notice permits such declaration, and (z) one or more of the Events of Default so identified shall be continuing at the time of such declaration.

7B. RESCISSION OF ACCELERATION. At any time after any or all of the Term Notes of any Series or of the Revolving Notes (as the case may be) shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holder(s) of the Term Notes of such Series or of the Revolving Notes (as the case may be) may, by notice in writing to the Company, rescind and annul such declaration and its consequences if (i) the Company shall have paid all overdue interest and non-usage fees, if any, on the Term Notes of such Series or of the Revolving Notes (as the case may be), the principal of and Yield-Maintenance Amount, if any, payable with respect to any Term Notes of such Series or of the Revolving Notes (as the case may be) which have become due otherwise than by reason of such declaration, and interest on such overdue interest, non-usage fee and overdue principal and Yield-Maintenance Amount at the rate specified in the Term Notes of such Series or of the Revolving Notes (as the case may be), (ii) the Company shall not have paid any amounts which have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of such declaration, shall have been cured or waived pursuant to paragraph 11C, (iv) no judgment or decree shall have been entered for the payment of any amounts due pursuant to the Term Notes of such Series, the Revolving Notes or this Agreement, and (v) no action shall have been taken by the Collateral Agent to foreclose upon the Mortgaged Property (as defined in the Mortgage) or to exercise any other rights with respect to the Mortgaged Property pursuant to the Mortgage. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. NOTICE OF ACCELERATION OR RESCISSION. Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Company shall forthwith give written notice thereof to the holder of each Note at the time outstanding other than any such holder as shall have participated in such acceleration or rescission, as the case may be.

7D. OTHER REMEDIES.

7D(1). EXERCISE. If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement, the Mortgage or the Acknowledgment, as the case may be, or in aid of the exercise of any power granted in this Agreement, the Mortgage, or the Acknowledgment, as the case may be. No remedy conferred in this Agreement, the Mortgage or the Acknowledgment upon the holder of any Note or upon the Collateral Agent for the benefit of such holder, as the case may be, is intended to be exclusive

of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or in the Mortgage or the Acknowledgment or now or hereafter existing at law or in equity or by statute or otherwise.

7D(2). AGENCY. The Company hereby acknowledges that the Lien of the Mortgage has been granted to the Collateral Agent solely in its capacity as collateral agent for Prudential, among other parties, and that all rights of the Collateral Agent thereunder have been granted for the benefit of such parties. Without limiting the generality of the foregoing, the Company further acknowledges and agrees that each and every obligation of the Company under the Mortgage to the Collateral Agent shall benefit Prudential and each other party for which the Collateral Agent from time to time acts as collateral agent pursuant to the Collateral Agency Agreement, including without limitation each Purchaser.

8. REPRESENTATIONS, COVENANTS AND WARRANTIES. The Company represents, covenants and warrants, on and as of the date hereof, as follows:

8A. ORGANIZATION.

(i) The Company is a corporation duly organized and existing in good standing under the laws

of the State of Minnesota and has the corporate power to own its property and assets and to conduct its business in the manner and in the places in which it is now being and is presently proposed to be conducted and to perform its obligation under this Agreement, the Notes, the Mortgage and the Acknowledgment.

(ii) The Company is not required to be qualified as a foreign corporation in any other jurisdiction.

(iii) The Company has no Subsidiaries, and the Company does not own, directly or indirectly, capital stock of any class of any corporation or any other equity or other interest in any Person. Both the Company and the Manager are wholly-owned subsidiaries of NRG, which is a wholly-owned subsidiary of NSP.

(iv) The Company has taken all action which may be required by its articles of incorporation, its bylaws, the laws of the State of Minnesota and all other applicable laws to authorize the execution and delivery and performance of this Agreement, the Notes, the Mortgage and the Acknowledgment.

8B. FINANCIAL STATEMENTS.

8B(1). FINANCIAL STATEMENTS OF ECPLP. The Company has furnished each Purchaser with the financial statements of ECPLP (the "ECPLP Financial Statements") received by the Company pursuant to the Master Purchase Agreement, including without limitation such financial statements as are referred to in Section 4.4 thereto. To the knowledge of the Company, the ECPLP Financial Statements fairly present the financial position, results of operations and retained earnings of ECPLP's business as of the dates and for the periods set forth in each case in accordance with generally accepted accounting principles consistently applied on the same basis as in the prior year. To the knowledge of the Company, there has been no material adverse change in the business, condition (financial or otherwise) or operations of the Project since December 31, 1992.

8B(2). PRO FORMA FINANCIAL STATEMENTS OF THE COMPANY. The Company has furnished each Purchaser a pro forma balance sheet of the Company as of the date hereof, giving effect to the transactions contemplated by the Master Purchase Agreement and this Agreement. The Company has also furnished each Purchaser with pro forma projections of operating cash flow, net cash flow

and net income, senior debt coverage and capital expenditures of the Company for the fiscal year ending on December 31 in each of the years 1993 through 2013. Said pro forma financial statements fairly present the Company's proposed business plans and the Company's good faith estimates as to matters projected therein based on reasonable business assumptions. Such projections are reasonably based on such assumptions and the best information available to the officers of the Company. No event has occurred which would make such projections materially inaccurate or misleading. Without limiting the generality of the foregoing, such financial statements of the Company reflect reasonable assumptions regarding capital expenditures required to maintain the Project or to bring the Project into compliance with existing Environmental Laws (whether such laws have immediate or future effective dates).

8C. ACTIONS PENDING. Except as set forth in Exhibit J hereto, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any properties or rights of the Company, ECPLP or the Project, by or before any court, arbitrator or administrative or governmental body. No action, suit, investigation or proceeding described in Exhibit J, if decided adversely to the Company, ECPLP or the Project, would involve the possibility of any material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project.

8D. OUTSTANDING DEBT. The Company does not have outstanding any Debt other than as permitted by paragraph 6B(2). There exists no default under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

8E. TITLE TO PROPERTIES. The Company has good and indefeasible title to its real properties (other than properties which it leases) and good title to all of its other properties and assets, including

without limitation all properties and assets comprising the Project and reflected in the most recent audited balance sheet of the Company delivered by the Company pursuant to paragraph 5A (or, if no audited balance sheet has been delivered, the most recent unaudited balance sheet of the Company delivered by the Company pursuant to paragraph 5A, or, if no unaudited balance sheet has been delivered, the pro forma balance sheet as of the date hereof referred to in paragraph 8B(2)), subject to no Lien of any kind except Liens permitted by paragraph 6B(1). All leases necessary in any material respect for the conduct of the business of the Company are valid and subsisting and are in full force and effect.

8F. TAXES. The Company has a fiscal year ending December 31 for reporting and tax purposes and has no tax liability for fiscal years prior to 1993. The Company has not filed and has not been required to file any federal, state and other income tax returns as of the date of this Agreement.

8G. CONFLICTING AGREEMENTS AND OTHER MATTERS. The Company is not a party to any contract or agreement or subject to any restriction in its articles of incorporation or other corporate restriction which materially and adversely affects the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project. Neither the execution nor delivery of this Agreement, the Notes, the Mortgage, or the Acknowledgment, nor the offering, issuance and sale of the Notes or making of any Revolving Loan, nor fulfillment of nor compliance with the terms and provisions of this Agreement, the Notes, the Mortgage or the Acknowledgment will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien (other than the Mortgage) upon any of the properties or assets of the Company pursuant to, the articles of incorporation or by-laws of the Company, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company is subject. The Company is not a party to, or otherwise subject to any provision

contained in, any instrument evidencing indebtedness of the Company, any agreement relating thereto or any other contract or agreement (including its articles of incorporation) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt of the Company of the type to be evidenced by the Notes, except the Note Agreement.

8H. OFFERING OF NOTES. Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

8I. USE OF PROCEEDS. The Company does not own or have any present intention of acquiring any "margin stock" as defined in Regulation G (12 CFR Part 207) of the Board of Governors of the Federal Reserve System (herein called "margin stock"). None of the proceeds of any Revolving Loan or of the sale of any Term Notes will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is then currently a margin stock or for any other purpose which might constitute the making of such Revolving Loan or the purchase of such Term Notes a "purpose credit" within the meaning of such Regulation G, unless the Company shall have delivered to Prudential or such Purchaser which is purchasing such Term Notes (as the case may be), on the date funds are advanced in connection therewith, an opinion of counsel satisfactory to Prudential or such Purchaser stating that the Revolving Loan or purchase of such Term Notes (as the case may be) does not constitute a violation of such Regulation G. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement, the Notes or any Revolving Loan to violate Regulation G, Regulation T or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

8J. ERISA. No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Plan (other than a

Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Plan (other than a Multiemployer Plan) by the Company or any ERISA Affiliate which is or would be materially adverse to the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project. Neither the Company nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project. The execution and delivery of this Agreement, the issuance and sale of each Note and each Revolving Loan will be exempt from or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of the representation of Prudential and each Purchaser in paragraph 9B as to the source of funds to be used by it to purchase any Notes and make Revolving Loans.

8K. GOVERNMENTAL CONSENT. Neither the nature of the Company, nor any of its business or properties, including without limitation ownership, operation and maintenance of the Project, nor any relationship between the Company and

any other Person, nor any circumstance in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or the making of Revolving Loans, the execution and delivery of the Mortgage or the Acknowledgment, or the purchase of the Project pursuant to the Master Purchase Agreement is such as to require any authorization, consent, approval, exemption or any action by or notice to or filing with any court or administrative or governmental body (other than (i) notification to the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which has been accomplished, and expiration of the waiting period thereunder, which has occurred, (ii) such as otherwise have been obtained on or prior to the date hereof, (iii) routine filings after the Closing Day for any Notes with the Securities and Exchange Commission and/or state Blue Sky authorities, and (iv) as otherwise set forth in Exhibit J hereto) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes, the fulfillment of or compliance with the terms and provisions hereof or of the Notes, the Mortgage, or the Acknowledgment, or the purchase of the Project pursuant to the Master Purchase Agreement.

8L. UTILITY STATUS. NSP is a "holding company" as such term is defined in the Public Utility Holding Company Act of 1935, as amended, but is exempt from all provisions of such Act, except Section 9(a)(2) thereof (relating to the acquisition of securities of a "public utility company"), because of its status as predominantly an operating company whose utility operations are confined to the state of its incorporation and states contiguous thereto and its filing with the Securities and Exchange Commission of all required forms in connection therewith. Neither NRG, the Company nor the Manager is (i) a "holding company", or, in each case with the exception of its relationship with NSP, a "subsidiary company" of a "holding company," an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, (ii) a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or the Federal Power Act, as amended, or (iii) otherwise subject to regulation as a public utility under federal law or the law of the State of Minnesota.

8M. INVESTMENT COMPANY STATUS. The Company is not an "investment Company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended or an "investment adviser" within the meaning of the Investment Advisers Act of 1940, as amended.

8N. LICENSES, PERMITS AND REGISTRATIONS. Except as set forth in Exhibit J hereto, each of the Company and Manager has procured and is in possession of all licenses, permits, exemptions or registrations required by federal, state or local laws for the ownership, operation and maintenance of the Project, as the case may be. With respect to any license, permit, exemption or registration that either (i) is currently required under applicable law, but is not currently in effect or has not been obtained as required, or (ii) must be amended or transferred after the closing, the Company reasonably expects that

such license, permit or registration will be obtained, amended or transferred in the ordinary course of business after the closing without any material expense to the Company (except as reflected in the Company's pro forma financial statements referred to in paragraph 8B(2)) or any material change in the operation of the Project.

8O. PURCHASE AGREEMENT REPRESENTATIONS. The Master Purchase Agreement and the other Purchase Documents have been duly executed and delivered by the parties thereto and are in full force and effect. All representations and warranties made by the Company in the Purchase Documents, and, to the best knowledge of the Company, all representatives and warranties made by ECPLP in the Purchase Documents are true and correct in all material respects.

8P. SUFFICIENCY AND CONDITION OF ACQUIRED ASSETS. The Acquired Assets

(as defined in the Master Purchase Agreement), as the same exist on the date of this Agreement, are in all respects sufficient and adequate to enable the Company to carry on the business of the Project at its normal level of operations as such business was carried on by ECPLP in the ordinary course prior to the date hereof, except as set forth in Exhibit J, and the items of tangible property constituting Acquired Assets have been properly maintained and are in good condition, ordinary wear and tear excepted.

8Q. NO DEFAULTS. As of the date of this Agreement, except as set forth in Schedule 4.11 to the Master Purchase Agreement, to the knowledge of the Company:

(a) ECPLP has performed all obligations and satisfied all liabilities required to be performed or satisfied by ECPLP under all Service Agreements;

(b) no other party to any Service Agreement is in default and no event or condition exists or has occurred which, after notice or lapse of time, or both, would constitute a default thereunder, where such default, event or condition would have an adverse effect on the Project taken as a whole;

(c) ECPLP has complied in all material respects with the requirements and conditions upon which all Encroachment Permits, Environmental Permits, Miscellaneous Permits and Easements were issued or granted; and

(d) neither ECPLP nor MECI, which is the current manager of the Project, has received from any governmental authority or any other person written notice of contemplated, threatened or pending rescission, cancellation or non-renewal of any of the Environmental Permits, Encroachment Permits, Miscellaneous Permits or Easements, or that any other permits, authorizations or easements are required for the occupancy or operation of the Project.

8R. ASSIGNABILITY OF PERMITS. Any provision of this Agreement to the contrary notwith-standing, no representation or warranty is made by the Company with respect to the transferability of any permit, including any Encroachment Permit, Environmental Permit or Miscellaneous Permit.

8S. ENVIRONMENTAL MATTERS; WELLS. As of the date of this Agreement, except as set forth in Schedule 4.13 to the Master Purchase Agreement, to the knowledge of the Company:

(a) ECPLP is in compliance with all federal, state and local environmental laws and regulations and neither ECPLP nor MECI has received any notices or warnings with respect to any violation or suspected violation of any such laws from any federal, state or local regulatory authority; and

(b) the only well located on the tracts and parcels constituting Real Property (as defined in the Real Property Agreement) is as described in the Well Disclosure Statement attached as Exhibit E to the Master Purchase Agreement, except for wells which have been sealed in accordance with the requirements of Minn. Stat. ch. 103I and as to which a Sealed Well Certificate has been delivered to the Minnesota Department of Health.

With respect to any remedial or other action that is required for the matters listed in Schedule 4.13 to the Master Purchase Agreement, the Company reasonably expects that such remedial or other action will be accomplished in the ordinary course of business after the closing without any material expense to the Company (except as reflected in the Company's pro forma financial statements referred to in paragraph 8B(2)) or any material change in the operation of the Project.

8T. HOSTILE TENDER OFFERS. None of the proceeds of any Revolving Loan or the sale of any Term Notes will be used to finance a Hostile Tender Offer.

8U. DISCLOSURE. Neither this Agreement, the Notes, the Mortgage, the Acknowledgment nor any other document, certificate or statement furnished to Prudential or any Purchaser by or on behalf of the Company in connection herewith or therewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or the Project which materially adversely affects or in the future may (so far as the Company can now foresee) materially adversely affect the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project and which has not been set forth in this Agreement, the Mortgage or the Acknowledgment or in the other documents, certificates and statements furnished to Prudential or any Purchaser by or on behalf of the Company prior to the date hereof in connection with the transactions contemplated hereby.

9. REPRESENTATIONS OF THE PURCHASERS.

Prudential and each Purchaser represents as follows:

9A. NATURE OF PURCHASE. It is acquiring the Notes to be purchased by it hereunder for the purpose of investment and not with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act, provided that the disposition of its property shall at all times be and remain within its control.

9B. SOURCE OF FUNDS. No part of the funds used by it to pay the purchase price of the Notes purchased by it hereunder constitutes assets allocated to any separate account maintained by it in which any employee benefit plan, other than employee benefit plans identified on a list which has been furnished by it to the Company, participates to the extent of 10% or more. For the purpose of this paragraph 9B, the terms "separate account" and "employee benefit plan" shall have the respective meanings specified in section 3 of ERISA.

10. DEFINITIONS. For the purpose of this Agreement, the terms defined in the text of any paragraph shall have the respective meanings specified therein, and the following terms shall have the meanings specified with respect thereto below:

10A. YIELD-MAINTENANCE TERMS.

"CALLED PRINCIPAL" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to the Mortgage, paragraph 1L(1) or paragraph 5F or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"DISCOUNTED VALUE" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on such Note is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"REINVESTMENT YIELD" shall mean, with respect to the Called Principal of any Note, 0.5% over the yield to maturity implied by (a) the yields reported, as of 10:00 A.M. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (b) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S.

Treasury securities having a constant maturity equal to the Remaining Average

Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (x) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (y) interpolating linearly between yields reported for various maturities.

"REMAINING AVERAGE LIFE" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"REMAINING SCHEDULED PAYMENTS" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or alter the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"SETTLEMENT DATE" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to the Mortgage, paragraph 1L(1) or paragraph 5F or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"YIELD-MAINTENANCE AMOUNT" shall mean, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. OTHER TERMS.

"ACCEPTANCE" shall have the meaning set forth in paragraph 1G.

"ACCEPTANCE DAY" shall have the meaning set forth in paragraph 1G.

"ACCEPTANCE WINDOW" shall have the meaning set forth in paragraph 1G.

"ACCEPTED NOTE" shall have the meaning set forth in paragraph 1G.

"ACKNOWLEDGMENT" shall have the meaning set forth in paragraph 3A(5).

"ADJUSTED COMMERCIAL PAPER RATE" shall mean a rate per annum equal to the sum of (a) 2% plus (b) the yield-adjusted rate (i.e., the nominal rate increased by the cost of any discount) charged or quoted to Prudential Funding Corporation for dealer-placed, 30-day promissory notes issued by Prudential Funding Corporation on the Rate Day.

"AFFILIATE" shall mean any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the Company, except a Subsidiary (the acquisition or creation of which is expressly prohibited pursuant to paragraph 6B(3)). A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

"AUTHORIZED OFFICER" shall mean (i) in the case of the Company, its President, Vice President, Treasurer or Secretary or any other officer of the Company designated as an "Authorized Officer" of the Company for the purpose

of this Agreement in an Officer's Certificate executed by the Company's President and delivered to Prudential, and (ii) in the case of Prudential, any officer of Prudential designated as an "Authorized Officer" in the Information Schedule or any officer of Prudential designated as an "Authorized Officer" for the purpose of this Agreement in a certificate executed by one of its Authorized Officers. Any action taken under this Agreement on behalf of the Company by any individual who on or after the date of this Agreement shall have been an Authorized Officer of the Company and whom Prudential in good faith believes to be an Authorized Officer of the Company at the time of such action shall be binding on the Company even though such individual shall have ceased to be an Authorized Officer of the Company, and any action taken under this Agreement on behalf of Prudential

by any individual who on or after the date of this Agreement shall have been an Authorized Officer of Prudential and whom the Company in good faith believes to be an Authorized Officer of Prudential at the time of such action shall be binding on Prudential even though such individual shall have ceased to be an Authorized Officer of Prudential.

"AVAILABLE FACILITY AMOUNT" shall have the meaning set forth in paragraph 1B.

"BANKRUPTCY LAW" shall have the meaning set forth in clause (viii) of paragraph 7A.

"BUSINESS DAY" shall mean any day other than (i) a Saturday or a Sunday, (ii) a day on which commercial banks in New York City are required or authorized to be closed and (iii) for purposes of paragraph 1C hereof only, a day on which The Prudential Insurance Company of America is not open for business.

"CANCELLATION DATE" shall have the meaning set forth in paragraph 1K.

"CANCELLATION FEE" shall have the meaning set forth in paragraph 1K.

"CAPITALIZED LEASE OBLIGATION" shall mean any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of the Company, taken at the amount thereof accounted for as indebtedness (net of interest expenses) in accordance with such principles.

"CLOSING DAY" for any Accepted Note shall mean the Business Day specified for the closing of the purchase and sale of such Note in the Request for Purchase of such Note, provided that (i) if the Acceptance Day for such Accepted Note is less than five Business Days after the Company shall have made such Request for Purchase and the Company and the Purchaser which is obligated to purchase such Note agree on an earlier Business Day for such closing, the "CLOSING DAY" for such Accepted Note shall be such earlier Business Day, and (ii) if the closing of the purchase and sale of such Accepted Note is rescheduled pursuant to paragraph 1I, the Closing Day for such Accepted Note, for all purposes of this Agreement except paragraph 1K, shall mean the Rescheduled Closing Day with respect to such Closing.

"CODE" shall mean the Internal Revenue Code of 1986, as amended.

"COLLATERAL AGENCY AGREEMENT" shall have the meaning set forth in paragraph 3A(5).

"COLLATERAL AGENT" shall mean Norwest Bank Minnesota, National Association, until a successor collateral agent is appointed in accordance with the terms of the Collateral Agency Agreement, and thereafter such successor.

"COMMONWEALTH" shall mean Commonwealth Land Title Insurance Company.

"CONFIDENTIAL INFORMATION" shall mean any written information delivered or

made available by or on behalf of the Company, either directly or through any Person referred to in paragraph 5C, to Prudential, a Purchaser or a Transferee pursuant to this Agreement which is clearly marked or labeled as being confidential information, but in no event shall include information (i) which was publicly known or otherwise known to Prudential or such Purchaser or Transferee at the time of disclosure, (ii) which subsequently becomes publicly known through no act or omission by Prudential, such Purchaser or Transferee, or (iii) which otherwise becomes known to Prudential, such Purchaser or Transferee, other than through disclosure by or on behalf of the Company.

"CONFIRMATION OF ACCEPTANCE" shall have the meaning set forth in paragraph 1G.

"CONSULTANTS" shall mean, collectively, the Engineer and Twin City.

"CONTROLLING INTEREST" shall mean a percentage of the outstanding Voting Stock or other equity securities of any Person sufficient to permit or require that, under generally accepted accounting principles, the financial statements of such Person be consolidated with those of the owner of such equity securities, but in no event less than a majority of the total combined voting power of all classes of Voting Stock of such Person.

"CPI" shall mean (i) the Consumer Price Index for Urban Consumers (Base 1982 = 100), or (ii) if at any time such Consumer Price Index is no longer published or issued or is changed from its present form or the bases used for the calculation thereof shall be changed from the present form, such other measures of relative purchasing power as then shall be recognized and accepted generally for similar use or purpose as such Consumer Price Index.

"CURRENT DEBT" shall mean, with respect to any Person, all Indebtedness of such Person for borrowed money which by its terms or by the terms of any instrument or agreement relating thereto matures on demand or within one year from the date of the creation thereof and is not directly or indirectly renewable or extendible at the option of the debtor to a date more than one year from the date of the creation thereof, provided that Indebtedness for borrowed money outstanding under a revolving credit or similar agreement which obligates the lender or lenders to extend credit over a period of more than one year shall constitute Funded Debt and not Current Debt, even though such Indebtedness by its terms matures on demand or within one year from the date of the creation thereof and, provided further, in the case of the Company, all outstanding Indebtedness evidenced by the Revolving Notes shall be deemed Current Debt, and not Funded Debt, hereunder.

"DEBT" shall mean Current Debt and Funded Debt.

"DEBT EXPENSE" shall mean, for any period, the sum of (i) the aggregate amount of principal and interest payments (including lease payments under Capitalized Lease Obligations) of the Company and/or of ECPLP, as the case may be, determined in accordance with generally accepted accounting principles, and (ii) the amount of principal and interest payable with respect to the Funded Debt proposed to be created, incurred or assumed.

"DELAYED DELIVERY FEE" shall have the meaning set forth in paragraph 1J.

"EASEMENTS" shall have the meaning set forth in paragraph 5H(1).

"ECPLP" shall mean ENERGY CENTER PARTNERS, A LIMITED PARTNERSHIP, a Minnesota limited partnership.

"ENGINEER" shall mean HDR Engineering, Inc.

"ENVIRONMENTAL LAWS" shall mean, collectively, all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations relating to protection of the environment.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(c) of the Code.

"ESCROW AGREEMENT" shall mean the Security (Pledge) and Escrow Agreement of even date herewith among the Company, ECPLP and First Trust National Association executed pursuant to the Master Purchase Agreement.

"EVENT OF DEFAULT" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "DEFAULT" shall mean any of such events, whether or not any such requirement has been satisfied.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

"EXISTING LOAN AGREEMENTS" shall mean, collectively (i) the Note Agreements dated July 27, 1984 between ECPLP and each of Prudential Interfunding Corp., Northwestern National Life Insurance Company, Northern Life Insurance Company and The North Atlantic Life Insurance Company of America, as amended, (ii) the Note Agreement dated August 1, 1986 between ECPLP and Prudential, as amended, (iii) the Note Agreement dated December 30,1988 between ECPLP and Pruco Life Insurance Company, as amended, and (iv) the Note Agreement dated September 28, 1990 between ECPLP and Prudential, as amended.

"FACILITY" shall have the meaning set forth in paragraph 1B.

"FUNDED DEBT" shall mean, with respect to any Person, all Indebtedness of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, more than one year from, or is directly or indirectly renewable, or extendible at the option of the debtor to a date more than one year (including an option of debtor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year) from, the date of the creation thereof.

"GUARANTEE" shall mean, with respect to any Person, any direct or indirect liability, contingent or otherwise, of such Person with respect to any indebtedness, lease, dividend or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable, including, without limitation, any such obligation in effect guaranteed by such Person through any agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet or other financial condition of the obligor of such obligation, or to make payment for any products, materials or supplies or for any transportation or service, regardless of the non-delivery or non-furnishing thereof, in any such case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected against loss in respect thereof. The amount of any Guarantee shall be equal to the outstanding principal amount of the obligation guaranteed or such lesser amount to which the maximum exposure of the guarantor shall have been specifically limited.

"HEDGE TREASURY NOTE(S)" shall mean, with respect to any Accepted Note, the United States Treasury Note or Notes whose duration (as determined by Prudential) most closely matches the duration of such Accepted Note.

"HOSTILE TENDER OFFER" shall mean, with respect to the use of proceeds of any Note or Revolving Loan, any offer to purchase, or any purchase of, shares of capital stock of any corporation or equity interests in any other entity, or securities convertible into or representing the beneficial ownership of, or rights to acquire, any such shares or equity interests, if such shares, equity interests, securities or rights are of a class which is publicly traded on any securities exchange or in any over-the-counter market, other than purchases of such shares, equity interests, securities or rights representing less than 5% of the equity interests or beneficial ownership of such corporation or other entity for portfolio investment purposes, and such offer or purchase has not been duly approved by the board of directors of such corporation or the equivalent governing body of such other entity prior to the date on which the Company makes the Request for Purchase of such Note or the borrowing request with respect to such Revolving Loan pursuant to paragraph 2C, as the case may be.

"INDEBTEDNESS" shall mean, with respect to any Person, without duplication, (i) all items (including Capitalized Lease Obligations but excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation) which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as of the date on which Indebtedness is to be determined, (ii) all indebtedness secured by any Lien on any property or asset owned or held by such Person subject thereto, whether or not the indebtedness secured thereby shall have been assumed, and (iii) all indebtedness of others with respect to which such Person has become liable by way of a Guarantee.

"INSTITUTIONAL INVESTOR" shall mean Prudential, any Prudential Affiliate and any bank, bank affiliate, financial institution, insurance company, pension fund, mutual fund, endowment or other organization which regularly acquires debt instruments for investment.

"ISSUANCE PERIOD" shall have the meaning set forth in paragraph lC.

"LIBOR BUSINESS DAY" shall mean a day of the year on which dealings are carried on in the London interbank market and banks are open for business in London and not required or authorized to close in New York City.

"LIBOR RATE" shall mean, for any Rate Period, for any Revolving Loan outstanding during such Rate Period, the sum of 2% plus the One Month London Interbank Offered Rate, at 11:00 A.M. (London Time) two LIBOR Business Days prior to Rate Day, for U.S. dollar deposits in the London interbank market as such rate is reported on page 3750 by Telerate -The Financial Information Network published by Telerate Systems Incorporated (Telerate), or its successor company. If Telerate shall cease to report such rates on a regular basis, the LIBOR Rate shall mean, for any Rate Period, the sum of 2% plus the rate determined by Prudential to be the arithmetic average (rounded upwards, if necessary, to the nearest 1/16 of 1 %) of the rates quoted to Prudential by the Reference Banks two LIBOR Business Days prior to Rate Day, for U.S. dollar deposits in the London interbank market.

"LIEN" shall mean any mortgage, pledge, security interest, encumbrance, lien (statutory or otherwise) or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction) or any other type of preferential arrangement for the purpose, or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

"MANAGEMENT AGREEMENT" shall have the meaning set forth in paragraph

3A(4).

"MANAGEMENT FEE" shall mean a monthly fee equal to 4% of the steam, hot water and chilled water gross revenues of the Company collected during the immediately preceeding month, payable in arrears by the Company to Manager for the services rendered by Manager during such month pursuant to the Management Agreement.

"MANAGER" shall mean NRG Operating Services, Inc., a Delaware corporation.

"MASTER PURCHASE AGREEMENT" shall mean the Master Purchase Agreement of even date herewith between ECPLP and the Company.

"MECI" shall mean Minneapolis Energy Center Inc.

"MISCELLANEOUS PERMITS" shall have the meaning set forth in paragraph 5H(1).

"MORTGAGE" shall have the meaning set forth in paragraph 3A(5).

"MULTIEMPLOYER PLAN" shall mean any Plan which is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA.

"1993 NOTES" shall mean the notes issued by the Company pursuant to the Note Agreement.

"NOTE AGREEMENT" shall have the meaning set forth in paragraph 3A(14).

"NOTES" shall have the meaning set forth in paragraph 2A.

"NRG" shall mean NRG Energy, Inc., a Delaware corporation.

"NSP" shall mean Northern States Power Company, a Minnesota corporation.

"OFFICER'S CERTIFICATE" shall mean a certificate signed in the name of the Company by an Authorized Officer of the Company.

"OPERATING INCOME" shall mean, for any period, (i) the sum of (A) the net earnings (or loss) of the Company and/or of ECPLP, as the case may be, for such period, (B) any net loss, net of applicable tax effect, realized (1) in connection with extraordinary items or transactions of a non-recurring or non-operating and material nature or (2) upon disposition of capital assets or the discontinuance of capital assets or the discontinuance of operations for such period, (C) tax expense for such period, and (D) interest expense (including the interest component of Capitatized Lease Obligations) for such period, less (ii) the sum of (A) any net gain, net of applicable tax effect, realized (1) in connection with

extraordinary items or transactions of a non-recurring or non-operating and material nature or (2) upon disposition of capital assets or the discontinuance of operations for such period and (B) income attributable to sources other than operations for such period, including without limitation interest income, in each case determined in accordance with generally accepted accounting principles.

"OPERATING INCOME AVAILABLE FOR DEBT EXPENSE" shall mean, for any period, the sum of (i) Operating Income of the Company and/or of ECPLP, as the case may be, for such period, (ii) depreciation and amortization for such period determined in accordance with generally accepted accounting principles, and (iii) the aggregate amount of the Management Fee accrued for such period.

"PERSON" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"PERSONAL PROPERTY AGREEMENT" shall mean the Purchase Agreement of even

date herewith between ECPLC and the Company executed pursuant to the Master Purchase Agreement.

"PLAN" shall mean any employee pension benefit plan (as such term is defined in section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Company or any ERISA Affiliate.

"PROJECT" shall mean, collectively, the steam, hot water and chilled water plant, parking structure and commercial space located in Minneapolis, Minnesota and known as the Minneapolis Energy Center, satellite steam and chilled water generation facilities, and other offsite property located on the property of others, all in Minneapolis, Minnesota and now or hereafter comprising the assets, properties and rights of the business of and known as the Minneapolis Energy Center, including without limitation all developments and improvements relating to the expansion of the productive capacity of any component thereof.

"PRUDENTIAL" shall mean The Prudential Insurance Company of America.

"PRUDENTIAL AFFILIATE" shall mean any corporation or other entity all of the Voting Stock (or equivalent voting securities or interests) of which is owned by Prudential either directly or through Prudential Affiliates.

"PURCHASE AGREEMENTS" shall mean, collectively, the Master Purchase Agreement, the Personal Property Agreement and the Real Property Agreement.

"PURCHASE DOCUMENTS" shall mean, collectively, the Purchase Agreements, the Escrow Agreement, and all other agreements, documents and instruments executed in connection with the transactions contemplated by the Master Purchase Agreement.

"PURCHASERS" shall mean, with respect to any Accepted Notes, the Persons (which shall be Prudential and/or Prudential Affiliate(s)) which propose to purchase such Accepted Notes.

"RATE DAY" shall mean for each Rate Period the first day of each calendar month of such Rate Period; provided, however, that if such day is not a LIBOR Business Day, then on the next LIBOR Business Day succeeding the first day of such calendar month.

"RATE PERIOD" shall mean the period during which the LIBOR Rate remains in effect and unchanged. For purposes of this Agreement, the Rate Period shall begin on the first day of each calendar month and shall end on the last day of such calendar month.

"REAL PROPERTY AGREEMENT" shall mean the Real Property Purchase Agreement of even date herewith between ECPLP and the Company executed pursuant to the Master Purchase Agreement.

"RENT LIMIT" shall have the meaning set forth in paragraph 6B(5).

"REFERENCE BANKS" shall mean Morgan Guaranty Trust Company of New York, Citibank, N.A. and Chase Manhattan Bank, N.A.

"REQUEST FOR PURCHASE" shall have the meaning set forth in paragraph 1E.

"REQUIRED HOLDER(S)" shall mean, with respect to the Revolving Notes and the Term Notes of any Series, at any time, the holder or holders of at least 66 2/3% of the aggregate principal amount of the Revolving Notes or the Term Notes of such Series (as the case may be) outstanding at such time.

"RESCHEDULED CLOSING DAY" shall have the meaning set forth in paragraph 1I.

"RESPONSIBLE OFFICER" shall mean the chief executive officer, chief

operating officer, chief financial officer or chief accounting officer of the Company or any other officer of the Company involved principally in its financial administration or its controllership function.

"REVOLVING COMMITMENT" shall have the meaning set forth in paragraph 2A.

"REVOLVING LOAN" and "REVOLVING LOANS" shall have the meanings set forth in paragraph 2A.

"REVOLVING LOANS TERMINATION DATE" shall have the meaning set forth in paragraph 2A.

"REVOLVING NOTE" and "REVOLVING NOTES" shall have the meaning set forth in paragraph 2A.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SERIES" shall have the meaning set forth in paragraph 1A.

"SERVICE AGREEMENTS" shall have the meaning set forth in paragraph 5H(1).

"SERVICE CONTRACTS" shall have the meaning set forth in paragraph 5H(1).

"SIGNIFICANT HOLDER" shall mean (i) in the case of the Term Notes (a) each Purchaser, so long as such Purchaser shall hold (or be committed under this Agreement to purchase) any Term Note and (b) any other holder of at least 5% of any Series of Term Notes from time to time outstanding, and (ii) in the case of the Revolving Notes, (x) Prudential and (y) any other holder of at least 5% of the Revolving Notes from time to time outstanding.

"SUBSIDIARY" shall mean any corporation or other Person in which, at the time of which any determination is being made, the Company owns a Controlling Interest either directly or through Subsidiaries.

"TERM NOTES" shall have the meaning set forth in paragraph 1A.

"TITLE INSURANCE COMMITMENT" shall have the meaning set forth in paragraph 3A(8).

"TOTAL CAPITALIZATION" shall mean the sum of stockholders' equity and Funded Debt of the Company.

"TRANSFEREE" shall mean any direct or indirect transferee of all or any part of any Note purchased under this Agreement.

"TWIN CITY" shall mean Twin City Testing Corporation.

"VOTING STOCK" shall mean, with respect to any corporation, any shares of stock of such corporation whose holders are entitled under ordinary circumstances to vote for the election of directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

10C. ACCOUNTING PRINCIPLES, TERMS AND DETERMINATIONS. All references in this Agreement to "generally accepted accounting principles" shall be deemed to refer to generally accepted accounting principles in effect in the United States at the time of application thereof. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all unaudited financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with generally accepted accounting principles applied on a basis consistent with the most recent audited financial statements of the Company delivered pursuant to clause (ii) of paragraph 5A or, if no such statements have been so delivered, the pro forma financial statements referred to in paragraph 8B(2).

11. MISCELLANEOUS.

11A. NOTE PAYMENTS. The Company agrees that, so long as Prudential or any Purchaser shall hold any Note, it will make payments of principal of, interest on, and any Yield-Maintenance Amount and non-usage fee payable with respect to, such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City local time, on the date due) to the applicable account or accounts of Prudential or such Purchaser, if any, as are specified in the Information Schedule attached hereto, or, in the case of any Purchaser not named in the Information Schedule or Prudential or any Purchaser wishing to change the account specified for it right the Information Schedule, such account or accounts in the United States as it may from time to time designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Prudential and each Purchaser agree that, before disposing of any Note, it will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as Prudential and the Purchasers have made in this paragraph 11A.

11B. EXPENSES. The Company agrees, whether or not the transactions contemplated hereby shall be consummated, to pay, and save Prudential, each Purchaser, the Collateral Agent, and, to the extent provided herein, any Transferee harmless against liability for the payment of all out-of-pocket expenses arising in connection with such transactions, including (i) all reasonable document production and duplication charges and the fees and expenses of any special counsel engaged by Prudential, the Purchasers, or the Collateral Agent in connection with this Agreement, the Mortgage, the Collateral Agency Agreement, the Acknowledgment or the Notes or the transactions contemplated hereby and thereby, (ii) all reasonable document production and duplication charges and fees and expenses of any special counsel engaged by the holder of any Note in connection with any subsequent proposed modification of, or proposed consent under, or proposed notice, instruction or direction given pursuant to this Agreement, the Mortgage, the Collateral Agency Agreement, the Acknowledgment or the Notes, whether or not such proposed modification shall be effected, proposed consent granted, or proposed notice, instruction or direction given, (iii) the costs and expenses, including attorneys' fees, incurred by the holder of any Note, or (with respect to the Mortgage) by the Collateral Agent on behalf of any holder of any Note, in enforcing (or determining whether or how to enforce) any rights under this Agreement, the Mortgage, the Acknowledgment or the Notes, and (iv) the costs and expenses, including attorneys' fees, incurred by Prudential, any Purchaser or any Transferee in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Mortgage, the Collateral Agency Agreement, the Acknowledgment or the Notes or the transactions contemplated hereby or thereby or by reason of Prudential's or any Purchaser's or any Transferee's having acquired any Note, including without limitation costs and expenses incurred in any bankruptcy case. The obligations of the Company under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by Prudential, any Purchaser or any Transferee and the payment of any Note.

11C. CONSENT TO AMENDMENTS. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) of the Revolving Notes and of the Term Notes of each Series except that, (i) with the written consent of the holders of all Revolving Notes or Term Notes of a particular Series, and if an Event of Default shall have occurred and be continuing, of the holders of all Notes at the time outstanding (and not without such written consents), the Revolving Notes or Term Notes of such Series (as the case may be) may be amended or the provisions thereof waived to change the maturity thereof, to change or affect

the principal thereof, or to change or affect the rate or time of payment of interest on or any non-usage fee or Yield-Maintenance Amount payable with respect to the Revolving Notes or Term Notes of such Series (as the case may be), (ii) without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to or waiver of the provisions of this Agreement shall change or affect the provisions of paragraph 7A or this paragraph 11C insofar as such provisions relate to proportions of the principal amount of the Notes, or the rights of any individual holder of Notes, required with respect to any declaration of Notes to be due and payable or with respect to any consent, amendment, waiver or declaration, (iii) with the written consent of Prudential (and not without the written consent of

Prudential) the provisions of paragraph 1, 2 and 3C may be amended or waived (except insofar as any such amendment or waiver would affect any rights or obligations with respect to the purchase and sale of Term Notes which shall have become Accepted Notes prior to such amendment or waiver), and (iv) with the written consent of all of the Purchasers which shall have become obligated to purchase Accepted Notes of any Series (and not without the written consent of all such Purchasers), any of the provisions of paragraphs 1 and 3B may be amended or waived insofar as such amendment or waiver would affect only rights or obligations with respect to the purchase and sale of the Accepted Notes of such Series or the terms and provisions of such Accepted Notes. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. FORM, REGISTRATION, TRANSFER AND EXCHANGE OF NOTES; LOST NOTES. The Notes are issuable as registered notes without coupons in denominations of at least $100,000, except as may be necessary to reflect any principal amount not evenly divisible by $100,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were claimed by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such holder's unsecured indemnity agreement, or in the case of any such mutilation upon surrender and cancellation of such Note, the Company will make and deliver a Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note. Notwithstanding to the contrary herein, each Prudential and Purchaser agrees, and each Transferee by its acceptance of an interest in a Note agrees, that no Note (or any interest therein) shall be transferred to any Person which is not an Institutional Investor.

11E. PERSONS DEEMED OWNERS; PARTICIPATIONS. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, interest on, and any Yield-Maintenance Amount and non-usage fee payable with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in all or any part of such Note to any Person on such terms and conditions as may be determined by such holder in its sole and absolute discretion.

11F. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT. All representations and warranties contained herein or in the Notes, the Mortgage or the Acknowledgment or made in writing by or on behalf of the Company in connection herewith shall survive the execution and delivery of this Agreement, the Notes, the Mortgage and the Acknowledgment, the transfer by Prudential or any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of Prudential, any Purchaser or any Transferee. Subject to the preceding sentence, this Agreement, the

Notes, the Mortgage and the Acknowledgment embody the entire agreement and understanding between the parties hereto (the Collateral Agency Agreement being among Prudential, the holders of the 1993 Notes and the Collateral Agent only) with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter.

11G. SUCCESSORS AND ASSIGNS. All covenants and other agreements in this Agreement made by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including, without limitation, any Transferee) whether so expressed or not.

11H. DISCLOSURE TO OTHER PERSONS. Each of Prudential and each Purchaser agrees, and each Transferee by its acceptance of an interest in any Note agrees, to use its best efforts to hold in confidence and not disclose any Confidential Information; provided that nothing herein shall prevent Prudential, a Purchaser or a Transferee from delivery or disclosing (and the Company acknowledges that Prudential, each Purchaser and each Transferee may deliver or disclose) any financial statements and other documents delivered to it, and any other information disclosed to it (including, but not limited to, Confidential Information), by or on behalf of the Company, either directly or through any Person referred to in paragraph 5C, in connection with or pursuant to this Agreement to (i) its directors, officers, employees, agents and professional consultants, (ii) any other holder of any Note, (iii) any Person to which it offers to sell such Note or any part thereof, (iv) any Person to which it sells or offers to sell a participation in all or any part of such Note, (v) any Person from which it offers to purchase any security of the Company, (vi) any federal or state regulatory authority having jurisdiction over it, (vii) the National Association of Insurance Commissioners or any similar organization or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (a) to effect compliance with any law, rule, regulation or order applicable to it, (b) in response to any subpoena or other legal process or informal investigative demand, (c) in connection with any litigation to which it is a party or (d) in order to protect its investment in any Note.

11I. NOTICES. All written communications provided for hereunder shall be sent by first class mail or nationwide overnight delivery service (except as provided in paragraph 1 or 2) with charges prepaid and (i) if to any Person listed in the Information Schedule attached hereto, addressed to it at the address specified for such communications in such Information Schedule, or at such other address as it shall have specified in writing to the Person sending such communication, (ii) if to any Purchaser or holder of any Note

which is not a Person listed in such Information Schedule, addressed to it at such address as it shall have specified in writing to the Person sending such communication or, if any such holder shall not have so specified an address, then addressed to such holder in care of the last holder of such Note which shall have so specified an address to the Person sending such communication, and (iii) if to the Company, addressed to it at 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota 55403-2445, Attention: President, or at such other address as the Company shall have specified to the holder of each Note in writing, provided; however, that any such communication to the Company may also, at the option of the Person sending such communication, be delivered by any other means either to the Company at its address specified above or to any Authorized Officer of the Company. Any communication pursuant to paragraph 1 or 2 shall be made by the method specified for such communication therein, and shall be effective to create any rights or obligations under this Agreement only if, in the case of a telephone communication, an Authorized Officer of the party conveying the information and of the party receiving the information are parties to the telephone call, and in the case of a telecopier communication, the communication is signed by an Authorized Officer of the party conveying the information, addressed to the attention of an Authorized Officer of the party receiving the information, and in fact received at the telecopier terminal the number of which is listed for the party receiving the communication in the Information Schedule or at such other telecopier terminal as the party receiving the information shall have specified in writing to the party sending such information.

11J. PAYMENTS DUE ON NON-BUSINESS DAYS. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or interest on, or Yield-Maintenance Amount or non-usage fee payable with respect to, any Note that is due on a date other than a Business Day shall

be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall be included in the computation of the interest payable on such Business Day.

11K. SATISFACTION REQUIREMENT. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to Prudential or any Purchaser, to any holder of Notes or to the Required Holder(s), the determination of such satisfaction shall be made by Prudential, such Purchaser, such holder or the Required Holder(s), as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11L. GOVERNING LAW. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Minnesota.

11M. SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11N. DESCRIPTIVE HEADINGS. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11O. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

11P. BINDING AGREEMENT. When this Agreement is executed and delivered by the Company and Prudential, it shall become a binding agreement between the Company and Prudential. This Agreement shall also inure to the benefit of each Purchaser which shall have executed and delivered a Confirmation of

Acceptance, and each such Purchaser shall be bound by this Agreement to the extent provided in such Confirmation of Acceptance.

Very truly yours,

NRG ENERGY CENTER, INC.

By: /s/ Ronald J. Will

Title: President

The foregoing Agreement is
hereby accepted as of the
date first above written.

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA
By /s/ P. Scott von Fischer, Jr.

Vice President

INFORMATION SCHEDULE

Authorized Officers for Prudential

Mark A. Hoffmeister
Vice President
Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Telephone: (312) 540-4215
Facsimile: (312) 540-4222

Leonard H. Lillard IV
Vice President
Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Telephone: (312) 540-4216
Facsimile: (312) 540-4222

P. Scott von Fischer
Senior Vice President
Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Telephone: (312) 540-4225
Facsimile: (312) 540-4222

Allen A. Weaver
Managing Director
Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601

Telephone: (312) 540-4211
Facsimile: (312) 540-4222

Senior Vice President
Central Credit
Prudential Capital Group
Four Gateway Center
100 Mulberry Street
Newark, New Jersey 07102

Telephone: (201) 802-6429
Facsimile: (201) 624-6432

Revolving Credit Facility Payments to Prudential

Payments of principal of and interest on the Revolving Notes, and of non-usage fees due pursuant to the Agreement, shall be made by wire transfer of immediate funds for credit to: Account No. 050-54-526, Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, NY 10015, ABA No. 021-000-238. Each such wire transfer shall set forth the name of the Company, a reference to "Revolving Note due June 15, 2000" and the due date and

application (as among principal, interest and non-usage fees) of the payment being made.

EXHIBIT A

[FORM OF TERM NOTE]
NRG ENERGY CENTER, INC.
SENIOR SBCURED SERIES TERM NOTE

[DATE]

No. R-
ORIGINAL PRINCIPAL AMOUNT:
ORIGINAL ISSUE DATE:
INTEREST RATE:
INTEREST PAYMENT DATES:
FINAL MATURITY DATE:
PRINCIPAL INSTALLMENT DATES AND AMOUNTS:

FOR VALUE RECEIVED, the undersigned, NRG ENERGY CENTER, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of Minnesota, hereby promises to pay to , or registered assigns, the principal sum of DOLLARS ($) [on the Final Maturity Date specified above] [, payable in installments on the Principal Installment Dates and in the amounts specified above, and on the Final Maturity Date specified above in an amount equal to the unpaid balance of the principal hereof,] with interest (computed on the basis of a 360-day year--30-day month) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest, and any overdue payment of any Yield-Maintenance Amount (as defined in the Agreement referred to below), payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) %* or (ii) 2% over the rate of interest publicly announced from time to time by Morgan Guaranty Trust Company of New York as its "prime rate".

Payments of principal of, and interest on, and any Yield-Maintenance Amount payable with respect to, this Note are to be made at the main office of Morgan Guaranty Trust Company of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Term Notes (herein called the "Notes") issued pursuant to a Master Shelf and Revolving Credit Agreement, dated August , 1993 (herein called the "Agreement"), between the Company and The Prudential Insurance Company of America and is entitled to the benefits thereof. As provided in the Agreement, this Note is secured by the Mortgage referred to therein.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and in the Company shall not be affected by any notice to the contrary.

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* 2% plus coupon rate.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

In case an Event of Default, as defined in the Agreement, shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

The Company agrees to pay, and save the holder hereof harmless against any liability for expenses arising in connection with the enforcement by such holder of any of its rights with respect to this Note or the Agreement, the Acknowledgement referred to therein or the Mortgage.

This Note is intended to be performed in the State of Minnesota and shall be construed and enforced in accordance with the law of such State.

NRG ENERGY CENTER, INC.

By: _____

Its: _____

EXHIBIT B

[FORM OF REQUEST FOR PURCHASE]
NRG ENERGY CENTER, INC.

Reference is made to the Master Shelf and Revolving Credit Agreement (the "Agreement"), dated August ,1993, between NRG Energy Center, Inc. (the "Company") and The Prudential Insurance Company of America. All terms used herein that are defined in the Agreement have the respective meanings specified in the Agreement.

Pursuant to Paragraph 1E of the Agreement, the Company hereby makes the following Request for Purchase:

1. Aggregate principal amount of the Term Notes covered hereby (the "Term Notes")

$_____

2. Individual specifIcations of the Term Notes :

PRINCIPAL AMOUNT*	FINAL MATURITY DATE	PRINCIPAL INSTALLMENT DATES AND AMOUNTS	INTEREST PAYMENT PERIOD
			Quarterly

3. Use of proceeds of the Term Notes:

4. Proposed day for the closing of the purchase and sale of the Term Notes:

5. The purchase price of the Term Notes is to be transferred to:

NAME AND ADDRESS OF BANK	NUMBER OF ACCOUNT	NAME AND TELEPHONE NUMBER OF BANK OFFICER

6. The Company certifies (a) that the representations and warranties contained in paragraph 8 of the Agreement are true on and as of the date of this Request for Purchase except to the extent of changes caused by the transactions contemplated in the Agreement and to the extent such representations and warranties by their express terms relate solely to an earlier date, and (b) that there exists on the date of this Request for Purchase no Event of Default or Default.

Dated:

NRG ENERGY CENTER, INC.

By:

_____
Authorized Officer

- ------------
* Minimum principal amount of $2,500,000, except as otherwise provided in paragraph 1E of the Agreement.

EXHIBIT C

[FORM OF CONFIRMATION OF ACCEPTANCE]
NRG ENERGY CENTER, INC.

Reference is made to the Master Shelf and Revolving Credit Agreement (the "Agreement"), dated August , 1993, between NRG Energy Center, Inc. (the "Company") and The Prudential Insurance Company of America. All terms used herein that are defined in the Agreement have the respective meanings specified in the Agreement.

Each of the undersigned institutions which is named below as a Purchaser of any Accepted Notes hereby confirms the representations as to such Accepted Notes set forth in paragraph 9 of the Agreement, and agrees to be bound by the provisions of paragraphs 1G and 1I of the Agreement relating to the purchase and sale of such Accepted Notes.

Pursuant to paragraph 1G of the Agreement, an Acceptance with respect to the following Accepted Notes is hereby confirmed:

I. Aggregate principal amount $_____

(A) (a) Name of Purchaser:
(b) Principal amount:
(c) Final maturity date:
(d) Principal installment dates and amounts:
(e) Interest rate:
(f) Interest payment period:

(B) (a) Name of Purchaser:
(b) Principal amount:
(c) Final maturity date:
(d) Principal installment dates and amounts:
(e) Interest rate:

(f) Interest payment period:
[(C), (D)...: same information as to any other Purchaser]

II. Closing Day:

Dated:

NRG ENNRGY CENTER, INC.

By:_____
Title:

[THE PRUDENTIAL INSURANCE COMPANY OF AMERICA]

By:_____
Vice President

[Signature block for each named Purchaser other than Prudential]

EXHIBIT D

NRG ENERGY CENTER, INC.
SENIOR SECURED REVOLVING NOTE

No. R-1 August , 1993
$5,000,000

FOR VALUE RECEIVED, the undersigned, NRG ENERGY CENTER, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of Minnesota, hereby promises to pay to The Prudential Insurance Company of America (herein called the "Lender"), or registered assigns, the principal sum of FIVE MILLION DOLLARS ($5,000,000) or, if less, the aggregate principal amount of all Revolving Loans made by Lender to the Company pursuant to the Agreement referred to below, in lawful money of the United States of America, on or before the Revolving Loans Termination Date (as defined in the Agreement).

The Company also promises to pay to Lender interest monthly, computed on the basis of actual days outstanding during the month (but excluding any days for which payment of interest was made in the preceding payment) plus the number of days after such month but not including the payment day, a year of 360 days and on the first Business Day (as defined in the Agreement) of the following month, on the unpaid principal balance outstanding hereunder, in like money at such office (i) from the date hereof until maturity (whether by acceleration or otherwise) at the rate per annum specified in the Agreement, such interest rate to change when and as provided therein, and (ii) from such maturity until paid, at a rate per annum which shall be the lesser of (a) the highest interest rate permitted by law and (b) the higher of 2% in excess of the rate per annum specified in the foregoing clause (i) and 2% in excess of the rate of interest publicly announced from time to time by Morgan Guaranty Trust Company of New York as its "prime rate".

Payments of principal, interest and non-usage fees are to be made at Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, New York 10015 (ABA No.: 021-000-238), Account No. 050-54-526, or at such place or other account as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of the Notes issued pursuant to a Master Shelf and Revolving Credit Agreement, of even date herewith (herein called the "Agreement"), between the Company and The Prudential Insurance Company of

America and is entitled to the benefits thereof. As provided in the Agreement, this Note is secured by the Mortgage referred to therein.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

In case an Event of Default, as defined in the Agreement, shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

The Company agrees to pay, and save the holder hereof harmless against any liability for expenses arising in connection with the enforcement by such holder of any of its rights with respect to this Note or the Agreement, the Acknowledgment referred to therein or the Mortgage.

This Note is intended to be performed in the State of Minnesota and shall be construed and enforced in accordance with the law of such State.

NRG ENERGY CENTER, INC.

By _____
President

EXHIBIT 10.5

NOTE AGREEMENT

- ---

NRG ENERGY CENTER, INC.

$84,000,000 7.31% SENIOR SECURED NOTES DUE JUNE 15, 2013

NOTE AGREEMENT

DATED AUGUST 20, 1993

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PURCHASER SCHEDULE
AMORTIZATION SCHEDULE

EXHIBITS
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EXHIBIT F -- DISCLOSURE SCHEDULE

NRG ENERGY CENTER, INC.
1221 NICOLLET MALL, SUITE 700
MINNEAPOLIS, MINNESOTA 55403-2445

AUGUST 20, 1993

To Each of the Purchasers Named in the
Purchaser Schedule Attached Hereto

Ladies and Gentlemen:

The undersigned, NRG Energy Center, Inc. (herein called the "Company"), hereby agrees with the purchasers named in the Purchaser Schedule attached hereto (herein called the "Purchasers") as follows:

1. AUTHORIZATION OF ISSUE OF NOTES. The Company will authorize the issue of its senior secured promissory notes in the aggregate principal amount of $84,000,000 to be dated the date of issue thereof, to mature June 15, 2013, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 7.31% per annum and on overdue payments at the rate specified therein, and to be substantially in the form of Exhibit A hereto. The term "Notes" as used herein shall include each such senior secured promissory note delivered pursuant to any provision of this Agreement and each such senior secured promissory note delivered in substitution or exchange for any other Note pursuant to any such provision.

2. PURCHASE AND SALE OF NOTES. The Company hereby agrees to sell to each Purchaser and, subject to the terms and conditions herein set forth, each Purchaser agrees to purchase from the Company the aggregate principal amount of Notes set forth opposite such Purchaser's name in the Purchaser Schedule attached hereto at 100% of such aggregate principal amount. The Company will deliver to each Purchaser, at the offices of Faegre & Benson at 2200 Norwest Center, 90 South Seventh Street, Minneapolis, Minnesota 55402-3901, one or more Notes registered in the name of such Purchaser, or, at such Purchaser's Option, in the name of its nominee, evidencing the aggregate principal amount of Notes to be purchased by such Purchaser and in the denomination or denominations specified with respect to such Purchaser in the Purchaser Schedule against payment of the purchase price thereof by transfer of immediately available funds for credit to the Company's account #6355002280 at Norwest Bank Minnesota, National Association, Norwest Center, 6th and Marquette, Minneapolis, Minnesota 55479-0069, ABA #091-000-019 on the date of closing, which shall be the date hereof, or any other date on or before August 31, 1993 upon which the Company and the Purchasers may mutually agree (herein called the "closing" or the "date of closing").

3. CONDITIONS OF CLOSING. Each Purchaser's obligation to purchase and pay for the Notes to be purchased by such Purchaser hereunder is subject to the satisfaction, on or before the date of closing, of the following conditions:

3A. OPINION OF PURCHASERS' SPECIAL COUNSEL. Such Purchaser shall have received from Faegre & Benson, who are acting as special counsel for the Purchasers in connection with this transaction, a favorable opinion satisfactory to such Purchaser as to such matters incident to the matters herein contemplated as it may reasonably request.

3B. OPINION OF COMPANY'S COUNSEL. Such Purchaser shall have received (i) from Briggs and Morgan, special counsel for the Company, a favorable opinion satisfactory to such Purchaser and substantially in the form of Exhibit B-1 attached hereto, and (ii) from Joseph D. Bizzano, Jr., General Counsel to the Company and counsel to Manager, a favorable opinion satisfactory to such

Purchaser and substantially in the form of Exhibit B-2 attached hereto. The Company hereby directs each such counsel to deliver its respective opinion, agrees that the issuance and sale of the Notes will constitute a reconfirmation of such direction, and understands and agrees that the Purchasers will and are hereby authorized to rely on each such opinion.

3C. REPRESENTATIONS AND WARRANTIES; NO DEFAULT. The representations and warranties contained in paragraph 8 shall be true on and as of the date of closing; there shall exist on the date of closing no Event of Default or Default; the Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of closing, to both such effects; and there shall have been no material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project since December 31, 1992.

3D. PURCHASE OF ASSETS. Concurrently with or prior to the purchase of the Notes to be purchased by such Purchaser, the Company shall have acquired the Project from ECPLP pursuant to the terms and conditions of the Master Purchase Agreement, a copy of which has been delivered to such Purchaser. All counsel rendering opinions to the Company pursuant to the Master Purchase Agreement shall have named such Purchaser as an additional addressee of such opinions or shall have otherwise consented to reliance thereon by such Purchaser.

3E. MANAGEMENT AGREEMENT. Concurrently with or prior to the purchase of the Notes to be purchased by such Purchaser, the Company shall have entered into a management agreement (the "Management Agreement") with Manager in form and substance acceptable to such Purchaser.

3F. SECURITY.

(i) The Company shall have executed and delivered to the Collateral Agent, as security for the Notes, a Combination Mortgage, Security Agreement and Fixture Financing Statement substantially in the form of Exhibit C hereto attached (as from time to time amended, the "Mortgage").

(ii) The Purchasers, Prudential and the Collateral Agent shall have executed and delivered a Collateral Agency and Intercreditor Agreement (as from time to time amended to add additional parties thereto and as otherwise amended from time to time, the "Collateral Agency Agreement"), and the Company shall have executed and delivered an Acknowledgment and Agreement to be appended thereto (the "Acknowledgment"), all substantially in the form of Exhibit D hereto attached.

3G. CAPITALIZATION. The capital structure of the Company shall be acceptable to such Purchaser. Without limiting the generality of the foregoing, the Company shall have (i) received on or prior to the date of closing cash contributions to its capital in an aggregate amount not less than the greater of (1) $20,000,000, or (2) an amount equal to 20% of Total Capitalization, and (ii) delivered to such Purchaser an Officer's Certificate, dated the date of closing, to such effect.

3H. REPORTS OF CONSULTANTS. The Company shall have received a report or reports in form and substance satisfactory to such Purchaser from (i) the Engineer, as to matters described in The Scope of Services Agreement for Engineering Services appended to the letter agreement dated March 15, 1993 by the Engineer in favor of NRG and such other matters as the Engineer shall have been engaged to address, and (ii) Twin City, as to certain storage tank matters. Each of the Consultants shall have named such Purchaser as an additional addressee of such reports or shall have otherwise consented to reliance thereon by such Purchaser.

31. TITLE INSURANCE. The Collateral Agent shall have received from

Commonwealth a policy of mortgagee's title insurance in an amount not less than $89,000,000, which insurance (i) shall designate the Collateral Agent as insured, (li) shall be substantially in conformity with Exhibit E (the "Title Insurance Commitment") and (iii) shall be underwritten with reinsurance in a manner and to an extent satisfactory to such Purchaser.

3J. OTHER INSURANCE. Such Purchaser shall have been provided with certificates and such other evidence as such Purchaser may reasonably request indicating that the Company is in compliance with the requirements of paragraph 5E, including without limitation the insurance consultant's certificate required pursuant to paragraph 9 of the Mortgage.

3K. ESTOPPEL CERTIFICATES. The Company shall have obtained estoppel certificates in form and substance satisfactory to such Purchaser with respect to (i) any of the existing Service Contracts as

to which such Purchaser may require such an estoppel certificate, (ii) the building lease covering the Soo Line facility, (iii) the ground lease covering the Convention Center facility, (iv) the air rights lease covering the Target Arena facility, and (v) the agreement covering the Baker Plant. The estoppel certificates referred to in the foregoing clauses (li) through and including (v) shall contain an express consent to the collateral assignment thereof contained in the Mortgage, and the estoppel certificate referred to in the foregoing clause (ii) shall contain the consent of the lessor's mortgagee.

3L. PURCHASE PERMITTED BY APPLICABLE LAWS. The purchase of and payment for the Notes to be purchased by such Purchaser on the date of closing on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, section 5 of the Securities Act or Regulation G, T or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may request to establish compliance with this condition.

3M. LIEN SEARCHES. Such Purchaser shall have received such Uniform Commercial Code, tax lien, judgment and bankruptcy searches and real estate title reports against the Company and ECPLP as such Purchaser may request, certified by reporting services satisfactory to such Purchaser, and disclosing no security interests, liens or other encumbrances other than those permitted under paragraph 6B(l).

3N. PROCEEDINGS. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and by the Master Purchase Agreement and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and such Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3O. SALE OF NOTES TO OTHER PURCHASERS. The Company shall concurrently sell to the other Purchasers the Notes to be purchased by them at the closing and shall concurrently receive payment in full therefor.

3P. CREDIT FACILITY. Concurrently with or prior to the purchase of the Notes to be purchased by such Purchaser, the Company shall have entered into a Master Shelf and Revolving Credit Agreement (as from time to time amended, the "Credit Agreement") with Prudential in form and substance acceptable to such Purchaser.

3Q. STRUCTURING FEE. The Company shall have paid to Prudential the amount of $150,000 as and for a non-refundable structuring fee for the transactions contemplated by this Agreement.

3R. EXISTING INDEBTEDNESS. The Indebtedness of ECPLP evidenced by promissory notes issued pursuant to the Existing Loan Agreements shall have been paid in whole in accordance with the terms of the Existing Loan Agreements or on other terms acceptable to the holders of such notes.

4. PREPAYMENTS. The Notes shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and also under any one or more of the circumstances referred to in paragraphs 4B and 4C.

4A. REQUIRED PREPAYMENTS. Until the Notes shall be paid in full, the Company shall apply to the principal prepayment of the Notes, without premium, on each of the dates in each of the years set forth in the Amortization Schedule attached hereto, the sum computed in accordance with the Amortization Schedule, and such principal amounts of the Notes, together with accrued interest thereon to the prepayment dates, shall become due on such prepayment dates.

4B. PREPAYMENT UNDER PARAGRAPH 5 OR THE MORTGAGE. The Notes shall be subject to prepayment (i) in whole as provided in paragraph 5F hereof, and (ii) in whole or in part as provided in the Mortgage. In the event pursuant to the Mortgage proceeds from any insurance policy or taking or condemnation awards with respect to the Mortgaged Property (as defined in the Mortgage) shall be distributed to the holders of the Notes as a prepayment of the Notes, the Company shall pay interest on

each Note on the amount so distributed with respect to such Note to the date of such distribution, together with the Yield-Maintenance Amount, if any, with respect to each Note. Any such distribution constituting a partial prepayment of the Notes shall be applied in proportion to the respective unpaid principal amounts thereof in satisfaction of required payments of principal in inverse order of their scheduled due dates.

4C. PREPAYMENT AT THE COMPANY'S OPTION. With Yield-Maintenance Amount. The Notes shall be subject to prepayment, in whole at any time or from time to time in part (in integral multiples of $500,000, and in the minimum amount of $1,000,000 per prepayment), at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield Maintenance Amount, if any, with respect to each Note. Any partial prepayment of the Notes pursuant to this paragraph 4C shall be applied in satisfaction of required payments of principal in inverse order of their scheduled due dates.

4D. NOTICE OF OPTIONAL PREPAYMENT. The Company shall give the holder of each Note irrevocable written notice of any prepayment pursuant to paragraph 4C not less than 30 days prior to the prepayment date, specifying such prepayment date and the principal amount of the Notes, and of the Notes held by such holder, to be prepaid on such date and stating that such prepayment is to be made pursuant to paragraph 4C. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, with respect thereto, shall become due and payable on such prepayment date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to paragraph 4C, give telephonic notice of the principal amount of the Notes to be prepaid and the prepayment date to each Significant Holder which shall have designated a recipient of such notices in the Purchaser Schedule attached hereto or by notice in writing to the Company.

4E. PARTIAL PAYMENTS PRO RATA. Upon any partial prepayment of the Notes pursuant to paragraph 4A, 4B or 4C, the principal amount so prepaid shall be allocated to all Notes at the time outstanding (including, for the purpose of this paragraph 4E only, all Notes prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates other than by prepayment pursuant to paragraph 4A, 4B or 4C) in proportion to the respective outstanding principal amounts thereof.

4F. RETIREMENT OF NOTES. The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to paragraph 4A, 4B or 4C or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes held by any holder unless the Company or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of Notes held by each other holder of Notes at the time outstanding upon the same terms and conditions. Any Notes so prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement, except as provided in paragraph 4E.

5. AFFIRMATIVE COVENANTS.

5A. FINANCIAL STATEMENTS. The Company covenants that it will deliver to each Significant Holder in triplicate:

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period in each fiscal year (including the fourth quarterly period), statements of income, stockholders' equity and cash flows of the Company for the period from the beginning of the current fiscal year to the end of such quarterly period, and a balance sheet of the Company at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and satisfactory in form to the Required Holder(s) and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments and, in the case of the fourth quarterly period only, a detailed financial budget for, at minimum, the then current fiscal year;

(ii) as soon as practicable and in any event within 120 days after the end of each fiscal year, statements of income and cash flows and a statement of stockholders ' equity of the Company for such year, and a balance sheet of the Company as at the end of such year, setting forth in each case in comparative form corresponding figures from the preceding annual audit, all in reasonable detail and satisfactory in form to the Required Holder(s) and reported on by independent public accountants of recognized national standing selected by the Company whose report shall be without limitation as to the scope of the audit and satisfactory in substance to the Required Holder(s);

(iii) promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its public stockholders and copies of all registration statements (without exhibits) and all reports which it files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission);

(iv) promptly upon receipt thereof, a copy of each other report submitted to the Company by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company; and

(v) with reasonable promptness, such other financial data as such Significant Holder may reasonably request.

Together with each delivery of financial statements required by clause (i) above, the Company will deliver to each Significant Holder (A) a copy of each Service Contract or renewal thereof entered into by the Company during the quarterly period to which such financial statements relate, and (B) an Officer's Certificate identifying each Service Contract which terminated and was not renewed during such quarterly period. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to each Significant Holder an Officer's Certificate demonstrating (with computations in reasonable detail) compliance by the Company with the

provisions of paragraphs 6B(2) 6B(5) and stating that there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to each Significant Holder (A) a schedule of Service Contracts in force as of the end of the fiscal year to which such financial statements relate (which schedule shall specify the termination date of each such Service Contract and the actual demand for and consumption of services pursuant to each such Service Contract during such fiscal year in terms of aggregate amounts paid by the customer therefor and aggregate volume per customer), and (B) a certificate of the accountants reporting on such financial statements stating that, in making the audit necessary for their report on such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature and period of existence thereof. Such accountants, however, shall not be liable to anyone by reason of their failure to obtain knowledge of any Event of Default or Default which would not be disclosed in the course of an audit conducted in accordance with generally accepted auditing standards. The Company also covenants that immediately after any Responsible Officer obtains knowledge of an Event of Default or Default, it will deliver to each Significant Holder an Officer's Certificate specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto.

5B. INFORMATION REQUIRED BY RULE 144A. The Company covenants that it will, upon the request of the holder of any Note, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act. For the purpose of this paragraph 5B, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

5C. INSPECTION OF PROPERTY. The Company covenants that it will permit any Person designated by any Significant Holder in writing, at such Significant Holder's expense, to visit and inspect any

of the properties of the Company, to examine the corporate books and financial records of the Company and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of the Company with the principal officers of the Company and its independent public accountants, all at such reasonable times and as often as such Significant Holder may reasonably request, it being understood that such Significant Holder shall direct such Person to use its best efforts to hold in confidence and not disclose any Confidential Information except to such Significant Holder or to any party to which such Significant Holder would be permitted to disclose such Confidential Information pursuant to paragraph 11H.

5D. AGREEMENT ASSUMING LIABILITY ON NOTES. The Company covenants that, if at any time any Person should become liable (as co-obligor, endorser, guarantor or surety) on any other obligation of the Company for borrowed money, the Company will, at the same time, cause such Person to deliver to each holder of Notes an agreement pursuant to which such Person becomes similarly liable on the Notes.

5E. MAINTENANCE OF INSURANCE. The Company covenants that it will maintain the insurance required to be maintained pursuant to the Mortgage, and together with each delivery of financial statements under clause (ii) of paragraph 5A, it will, upon the request of any Significant Holder, deliver to each Significant Holder an Officer's Certificate specifying the details of such insurance in effect.

5F. PAYMENT IF CONTROL CHANGES. The Company covenants that, in the

event that at any time (i) NRG shall directly own less than a Controlling Interest in the Company or the Manager, and as a result thereof the Company or the Manager shall become subject to regulation under the Public Utility Holding Company Act of 1935, as amended, or the Federal Power Act, as amended, or otherwise as a public utility under federal law or the law of the State of Minnesota, or (ii) NSP shall own, directly or indirectly, less than a Controlling Interest in NRG, the Company or the Manager, then in either case the Company will promptly give to each holder of a Note written notice thereof and will, upon the demand of the Required Holder(s) in writing given to the Company within 30 days after such notice, prepay the Notes in whole together with interest accrued thereon to the prepayment date, and together with the Yield-Maintenance Amount, if any, with respect to the Notes, on the date specified in such demand, which shall be not less than 30 days after such demand.

5G. RIGHTS UNDER PURCHASE DOCUMENTS. The Company covenants that it will enforce all material rights under the Purchase Documents, including but not limited to its indemnification rights.

5H. NOTICE OF DEFAULTS AND VIOLATIONS. The Company covenants that it will give each holder of a Note written notice within seven (7) Business Days of:

5H(1). DEFAULTS. Receipt by the Company of (i) oral or written notice of breach or default by the Company or Manager under the Management Agreement, (ii) written notice of default by the Company under any agreement for the sale of steam, hot water and/or chilled water produced by the Project, whether now existing or entered into after the date hereof (such agreements being referred to herein as "Service Contracts"), including without limitation the Service Agreements (as defined in the Personal Property Agreement), (iii) written notice of material default by the Company under, or termination or revocation of any easements, permits, supply contracts, leases or similar agreements comprising part of or benefitting the Project, whether now existing or created after the date hereof, including without limitation the Easements (as referred to in the Real Property Agreement), the Environmental Permits, the Encroachment Permits, the Miscellaneous Permits, the Supply Contracts and the Leases (each such capitalized term as defined in the Personal Property Agreement), including the building lease covering the Soo Line facility, the ground lease covering the Convention Center facility, the air rights lease covering the Target Arena facility, and the agreement covering the Baker Plant.

5H(2). VIOLATIONS. Receipt by the Company of oral or written notice of any material violation by the Company or Manager, in connection with the ownership, operation and maintenance of the Project, of (i) the terms or conditions of any license, permit or registration required by federal, state or local laws for the ownership, operation and maintenance of the Project, or (ii) any Environmental Laws.

5I. MAINTENANCE OF LICENSES, PERMITS AND REGISTRATIONS. The Company covenants that it will take, and will require Manager to take all action to maintain all licenses, permits and registrations required by federal, state or local laws for the ownership, operation and maintenance of the Project.

5J. POST-CLOSING ACTION REGARDING LICENSES, ETC. AND ENVIRONMENTAL MATTERS. With respect to any license, permit, exemption or registration in respect of which further action is appropriate after the closing (as reflected in paragraph 8N), the Company covenants that it will use its best efforts to accomplish such action as promptly as practicable following the closing. With respect to any environmental matter in respect of which remedial or other action is required (as reflected in paragraph 8S), the Company covenants that it will use its best efforts to accomplish such action as promptly as practicable following the closing.

6. NEGATIVE COVENANTS.

6A. FEES LIMITATION. The Company covenants (i) that the Management Fee shall be the sole compensation payable by the Company to Manager for the services rendered by Manager pursuant to the Management Agreement, and (ii) that the Management Fee shall not be paid except out of Operating income remaining after payment of (A) accrued interest on the Notes and the other Debt permitted by paragraph 6B(2), and (B) prepayment of principal of the Notes pursuant to paragraph 4A and required prepayment of principal of the other Debt permitted by paragraph 6B(2). Nothing herein contained shall prohibit the payment of such fees during the course of the year pending the determination of Operating Income, subject to the repayment obligations of Manager contained in the Management Agreement.

6B. LIEN, DEBT AND OTHER RESTRICTIONS. The Company covenants that it will not

6B(1). LIENS. Create, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired, except:

(i) Liens under the Mortgage in the favor of the Collateral Agent, which Liens shall secure equally and ratably the Notes and the Debt permitted by the provisions of clauses (ii) and (iii) of paragraph 6B(2);

(ii) existing Liens which were not incurred in connection with the borrowing of money or the obtaining of advances of credit and which are listed in Schedule B to the Title Insurance Commitment or in Exhibit B to the Mortgage;

(iii) Liens for taxes not yet due or which are being actively contested in good faith by appropriate proceedings; and

(iv) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not or are not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business.

6B(2). DEBT. Create, incur, assume or suffer to exist any Funded Debt or Current Debt, except:

(i) Funded Debt represented by the Notes;

(ii) additional Funded Debt, including without limitation Funded Debt represented by Shelf Notes, provided that the Company shall not create, incur or assume any such Funded Debt unless (A) as of the end of the fiscal quarter most recently completed at the time such Funded Debt is proposed to be created, incurred or assumed, and as of the end of each of the eleven consecutive fiscal quarters completed immediately prior thereto, Operating Income Available for Debt Expense for the immediately preceding twelve-month period shall have been not less than 125% of Debt Expense for such twelve-month period, (B) upon giving effect thereto and the application of the proceeds thereof, on a pro forma projected basis (such projections to fairly present the Company's proposed business plans and the Company's good faith estimate as to matters projected therein based on reasonable business assumptions, and to be reasonably based on such assumptions and the best information available to the officers of the Company) as of the end of each fiscal year thereafter ending through and including the fiscal year ending December 31, 2013, Operating

Income Available for Debt Expense for the immediately preceding twelve-month period shall be projected to be not less than 135% of Debt Expense for such twelve-month period, (C) the proceeds of such Funded Debt shall be used exclusively to acquire assets which will constitute part of the Project and the amount of such Funded Debt shall not exceed 80% of the lesser of the cost or the fair value of the assets to be acquired with the

proceeds thereof, such fair value to be reasonably established by the board of directors of the Company, (D) the terms of such Funded Debt shall (1) with respect to Funded Debt other than Funded Debt represented by Shelf Notes, include a maturity date which shall be on or after June 15, 2013, (2) require payment in equal quarterly installments of principal and interest from incurrence through maturity (i.e., quarterly mortgage-style amortization) and (3) not be amended after issuance with respect to interest rate or payment terms without the consent of the Required Holder(s), and (E) in accordance with the provisions of the Collateral Agency Agreement, such Funded Debt shall become subject thereto and secured by Liens under the Mortgage in favor of the Collateral Agent and any holder of such Funded Debt not already a party thereto shall become a party thereto; and

(iii) Current Debt not in excess of an aggregate principal amount of $5,000,000 at any time outstanding and evidenced by Revolving Notes (the "Revolving Notes") issued pursuant to the Credit Agreement, provided that the Company shall be free of all such Current Debt for a period of 60 consecutive days in each calendar year commencing with the calendar year ending December 31, 1994.

6B(3). LOANS, ADVANCES, INVESTMENTS AND CONTINGENT LIABILITIES. Make or permit to remain outstanding any loan or advance to, or guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person (including any corporation proposed to be acquired or created as a Subsidiary), except that the Company may

(i) own, purchase or acquire (x) prime taxable and tax-exempt commercial paper rated "P-1" or better by Moody's Investors Service, Inc. or "A-1" or better by Standard & Poor Corporation and certificates of deposit in United States commercial banks having capital resources in excess of $250,000,000 and (y) obligations of the United States Government or any agency thereof in each case due within one year from the date of purchase;

(ii) own, purchase or acquire shares of mutual funds that invest exclusively in commercial paper, certificates of deposit and obligations of the type described in the foregoing clause (i) or other readily marketed corporate debt due within one year from the date of purchase, provided such investments are rated "Aa3" or better by Moody's Investors Service, Inc. or "AA-" or better by Standard & Poor Corporation;

(iii) endorse negotiable instruments for collection in the ordinary course of business;

(iv) make or permit to remain outstanding travel and other like advances to officers and employees in the ordinary course of business; and

(v) make or permit to remain outstanding loans or advances to, or own, purchase or acquire stock, obligations or securities of, any other Person (other than any corporation or other Person proposed to be acquired or created as a Subsidiary, it being understood that the acquisition or creation of any such Subsidiary by the Company is expressly prohibited hereby), provided that the aggregate principal amount of such loans and advances, plus the aggregate amount of the investment (at original cost) in such stock. obligations and securities, shall not exceed $2;500,000 at any time outstanding.

6B(4). MERGER AND SALE OF ASSETS. Merge or consolidate with any other corporation or sell, lease or transfer or otherwise dispose of all or a substantial part (i.e., assets which individually or taken as a whole (i) are an integral part of the Project, (ii) constitute more than 10% of the assets of the Company, or (iii) have contributed more than 10% of Operating Income of the Company or ECPLP for any of the three fiscal years then most recently ended) of its assets to any Person.

6B(5). LEASE RENTALS. Enter into, or permit to remain in effect, any agreements to rent or lease (as lessee) any real or personal property, for initial terms (including options to renew or extend any term, whether or not exercised) of more than one year providing for payments by the Company to lessors during any period of 12 consecutive calendar months in excess of the following aggregate amounts per annum:

(i) through and including December 31, 1993, $500,000 (the initial "Rent Limit"); and

(ii) thereafter, and through and including December 31, of each year thereafter, an amount equal to the product of the Rent Limit for the immediately preceding twelve-month period multiplied by a fraction, the numerator of which shall be the CPI for the last month of such immediately preceding twelve-month period and the denominator of which shall be the CPI for the month immediately preceding such twelve-month period.

63(6). SALE OR DISCOUNT OF RECEIVABLES. Sell with recourse, or discount or otherwise sell for less than the face value thereof, any of its notes or accounts receivable.

6B(7). CERTAIN CONTRACTS. Enter into or be a party to any contract for the purchase of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services shall be made regardless of whether or not delivery of such materials, supplies or other property or services is ever made or tendered, except that the Company may enter into "take or pay" contracts with Persons not affiliated with the Company for the purchase of oil or natural gas to be consumed in the operation of the Project, provided that (i) no such contract has a term exceeding five years and (ii) the aggregate purchase obligations under all such contracts for any twelve-month period do not exceed 100% of the estimated fuel consumption for such period.

63(8). SALE AND LEASE-BACK. Enter into any arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by the Company of real or personal property which has been or is to be sold or transferred by the Company to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Company.

63(9). TRANSACTIONS WITH AFFILIATES. Except on terms no less favorable to the Company than would be obtainable if no such relationship existed, and except with respect to the Management Agreement and to tax-sharing arrangements between the Company and any of its Affiliates (provided that giving effect to such tax-sharing arrangements the Company shall not be required to pay taxes in an amount in excess of that for which it would be liable, assuming the application of the highest marginal tax rate paid by the Company and its Affiliates on a consolidated basis, if it were to file its own separate tax returns), directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise deal with, in the ordinary course of business or otherwise, any Affiliate.

6C. AMENDMENT OF MANAGEMENT AGREEMENT. Company covenants that it will not, without the prior written consent of the Required Holder(s), amend or waive enforcement of any provision of the Management Agreement, terminate or permit the Management Agreement to be terminated, assign it rights and obligations under the Management Agreement, or permit Manager to assign its rights and obligations under the Management Agreement.

6D. MAINTENANCE OF PRESENT BUSINESS. The Company covenants that it will not, without the prior written consent of the Required Holder(s), engage in any business other than the ownership, operation and maintenance of the Project.

7. EVENTS OF DEFAULT.

7A. ACCELERATION. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal of or Yield-Maintenance Amount payable with respect to any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) the Company defaults in the payment of any interest on any Note for more than 10 days after the date due; or

(iii) the Company defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto, or the Company fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, any such obligations in an aggregate principal amount exceeding $500,000 to become due (or to be repurchased by the Company) prior to the stated maturity thereof; or

(iv) any representation or warranty made by the Company herein or in the Notes, the Mortgage or the Acknowledgment or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement, the Notes, the Mortgage or the Acknowledgment shall he false in any material respect on the date as of which made (it being understood that, notwithstanding that certain representations and warranties of the Company set out in paragraphs 8B(1), 8Q and 8S hereof are qualified as to the knowledge of the Company, such representations and warranties shall be deemed to have been made without such qualification for purposes of this clause (iv)); or

(v) the Company fails to perform or observe the agreements contained paragraphs 5D, SP, 5H, 5I or any agreement contained in paragraph 6; or

(vi) the Company fails to perform or observe any other agreement, term or condition contained herein or in the Notes, the Mortgage or the Acknowledgment and such failure shall not be remedied within 30 days after any Responsible Officer obtains actual knowledge thereof; or

(vii) the Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(viii) any decree or order for relief in respect of the Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the "Bankruptcy Law"), of any jurisdiction; or

(ix) the Company petitions or applies to any tribunal for, or consents to. the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company, or of any substantial part of the assets of the Company, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings relating to the Company under the Bankruptcy Law of any other jurisdiction; or

(x) any such petition or application is filed, or any such proceedings are commenced, against the Company and the Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) any order, judgment or decree is entered in any proceedings against the Company decreeing a split-up of the Company which requires the divestiture of assets representing a substantial part of the assets of the Company (determined in accordance with generally accepted

accounting principles) or which requires the divestiture of assets which shall have contributed a substantial part of the net income of the Company or of ECPLP (determined in accordance with generally accepted accounting principles) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xiii) a final judgment in an amount in excess of $250,000 is rendered against the Company and, within 60 days after entry thereof, such judgment is not discharged or execution thereof stayed pendinig appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xiv) the Company, in its capacity as an employer under a Multiemployer Plan, makes a complete or partial withdrawal from such Multiemployer Plan resulting in the incurrence by the Company of a withdrawal liability in an amount exceeding $500,000, or any ERISA Affiliate, in its capacity as an employer under a Multiemployer Plan makes a complete or partial withdrawal from such Multiemployer Plan resulting in the incurrence by such ERISA Affiliate of a withdrawal liability in an amount exceeding $10,000,000, if the incurrence by such ERISA Affiliate of such withdrawal liability has a material and adverse effect on the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project; or

(xv) there shall occur any other "Event of Default" under the Mortgage, as such term is defined therein; or

(xvi) there shall occur any other "Event of Default" under the Credit Agreement, as such term is defined therein;

then (a) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, any holder of any Note with respect to which payment has not been made (other than the Company or any of its Subsidiaries or Affiliates) may at its option, during the continuance of such Event of Default, by notice in writing to the Company, declare all of the Notes held by such holder to be, and all of the Notes held by such holder shall thereupon be and become, immediately due and payable at par together with interest accrued thereon, and together with the Yield-Maintenance Amount, if any, with respect to each such Note, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, (b) if such event is an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A, all of the Notes at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, and (c) if such event is any other Event of Default. the Required Holder(s) may at its or their option during the continuance of such Event of Default, by notice in

writing to the Company, declare all of the Notes to be, and all of the Notes shall thereupon be and become, immediately due and payable together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company, provided that the Yield-Maintenance Amount, if any, witl0 respect to each Note shall be due and payable upon any declaration pursuant to this paragraph 7A only if (x) the event whose occurrence permits such declaration is an Event of Default specified in any of clauses (i) to (vi), inclusive, of this paragraph 7A, (y) the Required Holder(s) shall have given to the Company, at least 10 Business Days before such declaration, written notice stating its or their intention so to declare the Notes to be immediately due and payable and identifying one or more such Events of Default whose occurrence on or before the date of such notice permits such declaration, and (z) one or more of the Events of Default so identified shall be continuing at the time of such declaration.

7B. RESCISSION OF ACCELERATION. At any time after any or all of the Notes shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holder(s) may, by notice in writing to the Company, rescind and annul such declaration and its consequences if (i) the Company shall have paid all overdue interest on the Notes, the principal of and Yield-Maintenance Amount, if any, payable with respect to any Notes which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield-Maintenance Amount at the rate specified in the Notes, (ii) the Company shall not have paid any amounts which have become due solely

by reason of such declaration, (iii) all Events of Default and Defaults other than non-payment of amounts which have become due solely by reason of such declaration, have been cured or waived pursuant to paragraph 11C, (iv) no judgment or decree shall have entered for the payment of any amounts due pursuant to the Notes or this Agreement, and (v) no action shall have been taken by the Collateral Agent to foreclose upon the Mortgaged Property (as defined in the Mortgage) or to exercise any other rights with respect to the Mortgage Property pursuant to the Mortgage. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. NOTICE OF ACCELERATION OR RESCISSION. Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall b rescinded and annulled pursuant to paragraph 7B, the Company shall forthwith give written notice thereof to the holder of each Note at the time outstanding other than any such holder as shall have been a Required Holder with respect thereof.

7D. OTHER REMEDIES.

7D(1) EXERCISE. If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement, the Mortgage, or the Acknowledgement, as the case may be, or in aid of the exercise of any power granted in this Agreement, the Mortgage, or the Acknowledgement, as the case may be. No remedy conferred in this Agreement, the Mortgage or the Acknowledgement upon the holder of any Note or upon the Collateral Agent for the benefit of such holder, as the case may be, is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or in the Mortgage or the Acknowledgement or now or hereafter existing at law or in equity or by statute or otherwise.

7D(2) AGENCY. The Company hereby acknowledges that the Lien of the Mortgage has been granted to the Collateral Agent solely in its capacity as

collateral agent for the holders of the Notes, among other parties, and that all rights of the Collateral Agent thereunder have been granted for the benefit of such parties. Without limiting the generality of the foregoing, the Company further acknowledges and agrees that each and every obligation of the Company under the Mortgage to the Collateral Agent shall benefit the holders of the Notes and each other party for which the Collateral Agent from time to time acts as collateral agent pursuant to the Collateral Agency Agreement.

8. REPRESENTATIONS, COVENANTS AND WARRANTIES. The Company represents, covenants and warrants as follows:

8A. ORGANIZATION AND AUTHORITY.

(i) The Company is a corporation duly organized and existing in good standing under the laws of the State of Minnesota and has the corporate power to own its property and assets and to conduct its business in the manner and in the places in which it is now being and is presently proposed to be conducted and to perform its obligations under this Agreement, the Notes, the Mortgage and the Acknowledgment.

(ii) The Company is not required to be qualified as a foreign corporation in any other jurisdiction.

(iii) The Company has no Subsidiaries, and the Company does not own, directly or indirectly, capital stock of any class of any corporation or any other equity or other interest in any Person. Both the Company and the Manager are wholly-owned subsidiaries of NRG, which is a wholly-owned subsidiary of NSP.

(iv) The Company has taken all action which may be required by its articles of incorporation, its bylaws, the laws of the State of Minnesota and all other applicable laws to authorize the execution, delivery and performance of this Agreement, the Notes, the Mortgage and the Acknowledgment.

8B. FINANCIAL STATEMENTS.

8B(1). FINANCIAL STATEMENTS OF ECPLP. The Company has furnished each Purchaser with the financial statements of ECPLP (the "ECPLP Financial Statements") received by the Company pursuant to the Master Purchase Agreement, including without limitation such financial statements as are referred to in Section 4.4 thereto. To the knowledge of the Company, the ECPLP Financial Statements fairly present the financial position, results of operations and retained earnings of ECPLP's business as of the dates and for the periods set forth in each case in accordance with generally accepted accounting principles consistently applied on the same basis as in the prior year. To the knowledge of the Company, there has been no material adverse change in the business, condition (financial or otherwise) or operations of the Project since December 31, 1992.

8B(2). PRO FORMA FINANCIAL STATEMENTS OF THE COMPANY. The Company has furnished each Purchaser a pro forma balance sheet of the Company as of the date of closing, giving effect to the transactions contemplated by the Master Purchase Agreement and this Agreement. The Company has also furnished each Purchaser with pro forma projections of operating cash flow, net cash flow and net income, senior debt coverage and capital expenditures of the Company for the fiscal year ending on December 31 in each of the years 1993 through 2013. Said pro forma financial statements fairly present the Company's proposed business plans and the Company's good faith estimates as to matters projected therein based on reasonable business assumptions. Such projections are reasonably based on such assumptions and the best information available to the officers of the Company. No event has occurred which would make such projections materially inaccurate or misleading. Witl0otlt limiting the generality of the foregoing, such financial statements of the Company reflect reasonable assumptions regarding capital expenditures required to maintain

the Project or to bring the Project into compliance with existing Environmental Laws (whether such laws have immediate or future effective dates).

8C. ACTIONS PENDING. Except as set forth in Exhibit F hereto, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company, ECPLP or the Project or any properties or rights of the Company, ECPLP or the Project, by or before any court, arbitrator or administrative or governmental body. No action, suit, investigation or proceeding described in Exhibit F, if decided adversely to the Company, ECPLP or the Project, would involve the possibility of any material adverse change in the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project.

8D. OUTSTANDING DEBT. The Company does not have outstanding any Debt.

8E. TITLE TO PROPERTIES. The Company has good and indefeasible title to its real properties (other than properties which it leases) and good title to all of its other properties and assets, including without limitation all properties and assets comprising the Project and reflected in the pro forma balance sheet as of the date of closing referred to in paragraph 8B(2), subject to no Lien of any kind except Liens permitted by paragraph 6B(1). All leases necessary in any material respect for the operation of the Project are valid and subsisting and are in full force and effect.

8F. TAXES. The Company has a fiscal year ending December 31 for reporting and tax purposes and has no tax liability for fiscal years prior to 1993. The Company has not filed and has not been required to file any federal, state and other income tax returns.

8G. CONFLICTING AGREEMENTS AND OTHER MATTERS. The Company is not a party to any contract or agreement or subject to any restriction in its articles of incorporation or other corporate restriction which materially and adversely affects the business, property or assets, or condition (financial or otherwise) or operations of the Company or the Project. Neither the execution nor delivery of this Agreement, the Notes, the Mortgage or the Acknowledgment, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions of this Agreement, the Notes, the Mortgage or the Acknowledgment will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien (other than the Mortgage) upon any of the properties or assets of the Company pursuant to, the articles of incorporation or by-laws of the Company, any award of any arbitrator or any agreement (including any

agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company is subject. The Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company, any agreement relating thereto or any other contract or agreement (including its articles of incorporation) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt of the Company of the type to be evidenced by the Notes, except the Credit Agreement

8H. OFFERING OF NOTES. Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

8I. USE OF PROCEEDS. The Company does not own or have any present intention of acquiring any "margin stock" as defined in Regulation G (12 CFR

Part 207) of the Board of Governors of the Federal Reserve System (herein called "margin stock"). The proceeds of sale of the Notes will be used to consummate the transactions contemplated by the Master Purchase Agreement. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation G. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation G, Regulation T or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

8J. ERISA. No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Plan (other than a Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Plan (other than a Multiemployer Plan) by the Company or any ERISA Affiliate which is or would be materially adverse to the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project. Neither the Company nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation of the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of each Purchaser's representation in paragraph 9B as to the source of funds to be used by it to purchase any Notes.

8K. GOVERNMENTAL CONSENT. Neither the nature of the Company, nor any of its businesses or properties, including without limitation ownership, operation and maintenance of the Project, nor any relationship between the Company and any other Person, nor any circumstance in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes, the execution and delivery of the Mortgage or the Acknowledgment, or the purchase of the Project pursuant to the Master Purchase Agreement is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body (other than (i) notification to the Federal Trade Commission and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, which has been accomplished, and expiration of the waiting period thereunder, which has occurred, (ii) such as otherwise have been made or obtained on or prior to the date hereof, (iii) routine filings after the date of closing with the Securities Exchange Commission

and/or state Blue Sky authority and (iv) as otherwise set forth in Exhibit F hereto) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes, the execution and delivery of the Mortgage or the Acknowledgment, the fulfiliment of or compliance with the terms and provisions hereof or of the Notes, the Mortgage or the Acknowledgment, or the purchase of the Project pursuant to the Master Purchase Agreement.

8L. UTILITY STATUS. NSP is a "holding company" as such term is defined in the Public Utility Holding Company Act of 1935, as amended, but is exempt from all provisions of such Act, except Section 9(a)(2) thereof (relating to the acquisition of securities of a "public utility company"), because of its

status as predominantly an operating company whose utility operations are confined to the state of its incorporation and states contiguous thereto and its filing with the Securities and Exchange Commission of all required forms in connection therewith. Neither NRG, the Company nor the Manager is (i) a "holding company", or, in each case with the exception of its relationship with NSP, a "subsidiary company" of a "holding company," an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, (ii) a "public utility" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or the Federal Power Act, as amended, or (iii) otherwise subject to regulation as a public utility under federal law or the law of the State of Minnesota.

8M. INVESTMENT COMPANY STATUS. The Company is not an "investment Company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended or an "investment adviser" within the meaning of the Investment Advisers Act of 1940, as amended.

8N. LICENSES, PERMITS AND REGISTRATIONS. Except as set forth in Exhibit F hereto, each of the Company and Manager has procured and is in possession of all licenses, permits, exemptions or registrations required by federal, state or local laws for the ownership, operation and maintenance of the Project, as the case may be. With respect to any license, permit, exemption or registration that either (i) is currently required under applicable law, but is not currently in effect or has not been obtained as required, or (ii) must be amended or transferred after the closing, the Company reasonably expects that such license, permit or registration will be obtained, amended or transferred in the ordinary course of business after the closing without any material expense to the Company (except as reflected in the Company's pro forma financial statements referred to in paragraph 8B(2)) or any material change in the operation of the Project.

8O. PURCHASE AGREEMENT REPRESENTATIONS. The Master Purchase Agreement and the other Purchase Documents have been duly executed and delivered by the parties thereto and are in full force and effect. All representations and warranties made by the Company in the Purchase Documents, and, to the best knowledge of the Company, all representatives and warranties made by ECPLP in the Purchase Documents are true and correct in all material respects.

8P. SUFFICIENCY AND CONDITION OF ACQUIRED ASSETS. The Acquired Assets (as defined in the Master Purchase Agreement), as the same exist on the closing date, are in all respects sufficient and adequate to enable the Company to carry on the business of the Project at its normal level of operations as such business was carried on by ECPLP in the ordinary course prior to the date hereof, except as set forth in Exhibit F, and the items of tangible property constituting Acquired Assets have been properly maintained and are in good condition, ordinary wear and tear excepted.

8Q. NO DEFAULTS. Except as set forth in Schedule 4.11 to the Master Purchase Agreement, to the knowledge of the Company:

(a) ECPLP has performed all obligations and satisfied all liabilities required to be performed or satisfied by ECPLP under all Service Agreements;

(b) no other party to any Service Agreement is in default and no event or condition exists or has occurred which, after notice or lapse of time, or both, would constitute a default thereunder, where such default, event or condition would have an adverse effect on the Project taken as a whole;

(c) ECPLP has complied in all material respects with the requirements and conditions upon which all Encroachment Permits, Environmental Permits, Miscellaneous Permits and Easements were issued or granted; and

(d) neither ECPLP nor MECI, which is the current manager of the Project, has received from any governmental authority or any other person written

notice of contemplated, threatened or pending rescission, cancellation or non-renewal of any of the Environmental Permits, Encroachment Permits, Miscellaneous Permits or Easements, or that any other permits, authorizations or easements are required for the occupancy or operation of the Project.

8R. ASSIGNABILITY OF PERMITS. Any provision of this Agreement to the contrary notwithstanding, no representation or warranty is made by the Company with respect to the transferability of any permit, including any Encroachment Permit, Environmental Permit or Miscellaneous Permit.

8S. ENVIRONMENTAL MATTERS; WELLS. Except as set forth in Schedule 4.13 to the Master Purchase Agreement, to the knowledge of the Company:

(a) ECPLP is in compliance with all federal, state and local environmental laws and regulations and neither ECPLP nor MECI has received any notices or warnings with respect to any violation or suspected violation of any such laws from any federal, state or local regulatory authority; and

(b) the only well located on the tracts and parcels constituting Real Property (as defined in the Real Property Agreements) is as described in the Well Disclosure Statement attached as Exhibit E to the Master Purchase Agreement, except for wells which have been sealed in accordance with the requirements of Minn. Stat. ch. 103I and as to which a Sealed Well Certificate has been delivered to the Minnesota Department of Health.

With respect to any remedial or other action that is required for the matters listed in Schedule 4.13 to the Master Purchase Agreement, the Company reasonably expects that such remedial or other action will be accomplished in the ordinary course of business after the closing without any material expense to the Company (except as reflected in the Company's pro forma financial statements referred to in paragraph 8B(2)) or any material change in the operation of the Project.

8T. DISCLOSURE. Neither this Agreement, the Notes, the Mortgage, the Acknowledgment nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith or therewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or the Project which materially adversely affects or in the future may (so far as the Company can now foresee) materially adversely affect the business, property or assets, condition (financial or otherwise) or operations of the Company or the Project and which has not been set forth in this Agreement, the Mortgage or the Acknowledgment or in the other documents, certificates and statements furnished to each Purchaser by or on behalf of the Company prior to the date hereof in connection with the transactions contemplated hereby.

9. REPRESENTATIONS OF EACH PURCHASER. Each Purchaser represents as follows:

9A. NATURE OF PURCHASE. Such Purchaser is acquiring the Notes to be purchased by it hereunder for the purpose of investment and not with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act, provided that the disposition of such Purchaser's property shall at all times be and remain within its control.

9B. SOURCE OF FUNDS. No part of the funds being used by such Purchaser to pay the purchase price of the Notes being purchased by such Purchaser hereunder constitutes assets allocated to any separate account maintained by such Purchaser in which any employee benefit plan, other than employee benefit plans identified on a list which has been furnished by such Purchaser to the Company, participates to the extent of 10% or more. For the purpose of this paragraph 9B, the terms "separate account" and "employee benefit plan" shall have the respective meanings specified in section 3 of ERISA.

10. DEFINITIONS. For the purpose of this Agreement, the terms defined in the text of any paragraph shall have the respective meanings specified therein, and the following terms shall have the meanings specified with respect thereto below:

10A. YIELD-MAINTENANCE TERMS.

"BUSINESS DAY" shall mean any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"CALLED PRINCIPAL" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4B, 4C or 5F or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"DISCOUNTED VALUE" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"REINVESTMENT YIELD" shall mean, with respect to the Called Principal of any Note, 0.5% over the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H. 15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities.

"REMAINING AVERAGE LIFE" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"REMAINING SCHEDULED PAYMENTS" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"SETTLEMENT DATE" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4B, 4C or 5F or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"YIELD-MAINTENANCE AMOUNT" shall mean, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with

respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. OTHER TERMS.

"ACKNOWLEDGMENT" shall have the meaning set forth in paragraph 3F.

"AFFILIATE" shall mean any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, the Company, except a Subsidiary (the acquisition or creation of which is expressly prohibited pursuant to paragraph 6B(3)). A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

"BANKRUPTCY LAW" shall have the meaning set forth in clause (viii) of paragraph 7A.

"CAPITALIZED LEASE OBLIGATION" shall mean any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of the Company, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"CLOSING" and "DATE OF CLOSING" shall have the meaning set forth in paragraph 2.

"CODE" shall mean the Internal Revenue Code of 1986, as amended.

"COLLATERAL AGENCY AGREEMENT" shall have the meaning set forth in paragraph 3F.

"COLLATERAL AGENT" shall mean Norwest Bank Minnesota, National Association, until a successor collateral agent is appointed in accordance with the terms of the Collateral Agency Agreement, and thereafter such successor.

"COMMONWEALTH" shall mean Commonwealth Land Title Insurance Company.

"CONFIDENTIAL INFORMATION" shall mean any written information delivered or made available by or on behalf of the Company, either directly or through any Person referred to in paragraph 5C, to a Purchaser or a Transferee pursuant to this Agreement which is clearly marked or labeled as being confidential information, but in no event shall include information (i) which was publicly known or otherwise known to such Purchaser or Transferee at the time of disclosure, (ii) which subsequently becomes publicly known through no act or omission by such Purchaser or Transferee, or (iii) which otherwise becomes known to such Purchaser or Transferee, other than through disclosure by or on behalf of the Company.

"CONSULTANTS" shall mean, collectively, the Engineer and Twin City.

"CONTROLLING INTEREST" shall mean a percentage of the outstanding Voting Stock or other equity securities of any Person sufficient to permit or require that, under generally accepted accounting principles, the financial statements of such Person be consolidated with those of the owner of such equity securities, but in no event less than a majority of the total combined voting power of all classes of Voting Stock of such Person.

"CPI" shall mean (i) the Consumer Price Index for Urban Consumers (Base 1982 = 100), or (ii) if at any time such Consumer Price Index is no longer published or issued or is changed from its present form or the bases used for the calculation thereof shall be changed from the present form, such other measures of relative purchasing power as then shall be recognized and accepted generally for similar use or purpose as such Consumer Price Index.

"CREDIT AGREEMENT" shall have the meaning set forth in paragraph 3P.

"CURRENT DEBT" shall mean, with respect to any Person, all Indebtedness of such Person for borrowed money which by its terms or by the terms of any instrument or agreement relating thereto matures on demand or within one year from the date of the creation thereof and is not directly or indirectly renewable or extendible at the option of the debtor to a date more than one year from the date of the creation thereof, provided that Indebtedness for borrowed money outstanding under a revolving credit or similar agreement which obligates the lender or lenders to extend credit over a period of more than one year shall constitute Funded Debt and not Current Debt, even though such Indebtedness by its terms matures on demand or within one year from the date of the creation thereof and, provided further, in the case of the Company, all outstanding Indebtedness evidenced by the Revolving Notes shall be deemed Current Debt, and not Funded Debt, hereunder.

"DEBT" shall mean Current Debt and Funded Debt.

"DEBT EXPENSE" shall mean, for any period, the sum of (i) the aggregate amount of principal and interest payments (including lease payments under Capitalized Lease Obligations) of the Company and/or of ECPLP, as the case may be, determined in accordance with generally accepted accounting principles, and (ii) the amount of principal and interest payable with respect to the Funded Debt proposed to be created, incurred or assumed.

"EASEMENTS" shall have the meaning set forth in paragraph 5H(1).

"ECPLP" shall mean ENERGY CENTER PARTNERS, A LIMITED PARTNERSHIP, a Minnesota limited partnership.

"ENCROACHMENT PERMITS" shall have the meaning set forth in paragraph 5H(1).

"ENGINEER" shall mean HDR Engineering, Inc.

"ENVIRONMENTAL LAWS" shall mean, collectively, all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations relating to protection of the environment.

"ENVIRONMENTAL PERMITS"shall have the meaning set forth in paragraph 5H(1).

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(c) of the Code.

"ESCROW AGREEMENT" shall mean the Security (Pledge) and Escrow Agreement of even date herewith among the Company, ECPLP and First Trust National Association executed pursuant to the Master Purchase Agreement.

"EVENT OF DEFAULT" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "DEFAULT" shall mean any of such events, whether or not any such requirement has been satisfied.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

"EXISTING LOAN AGREEMENTS" shall mean, collectively (i) the Note Agreements dated July 27, 1984 between ECPLP and each of Prudential

Interfunding Corp., Northwestern National Life Insurance Company, Northern Life Insurance Company and The North Atlantic Life Insurance Company of America, as amended, (ii) the Note Agreement dated August 1, 1986 between ECPLP and Prudential, as amended, (iii) the Note Agreement dated December 30, 1988 between ECPLP and Pruco Life Insurance Company, as amended, and (iv) the Note Agreement dated September 28, 1990 between ECPLP and Prudential, as amended.

"FUNDED DEBT" shall mean, with respect to any Person, all Indebtedness of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures, or which is otherwise payable or unpaid, more than one year from, or is directly or indirectly renewable or extendible at the option of the debtor to a date more than one year (including an option of the debtor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year) from, the date of the creation thereof.

"GUARANTEE" shall mean, with respect to any Person, any direct or indirect liability, contingent or otherwise, of such Person with respect to any indebtedness, lease, dividend or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable, including, without limitation, any such obligation in effect guaranteed by such Person through any

agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet or other financial condition of the obligor of such obligation, or to make payment for any products, materials or supplies or for any transportation or services regardless of the non-delivery or non-furnishing thereof, in any such case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected against loss in respect thereof. The amount of any Guarantee shall be equal to the outstanding principal amount of the obligation guaranteed or such lesser amount to which the maximum exposure of the guarantor shall have been specifically limited.

"INDEBTEDNESS" shall mean, with respect to any Person, without duplication, (i) all items (including Capitalized Lease Obligations but excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation) which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as of the date on which Indebtedness is to be determined, (ii) all indebtedness secured by any Lien on any property or asset owned or held by such Person subject thereto, whether or not the indebtedness secured thereby shall have been assumed, and (iii) all indebtedness of others with respect to which such Person has become liable by way of a Guarantee.

"INSTITUTIONAL INVESTOR" shall mean Prudential, any Prudential Affiliate and any bank, bank affiliate, financial institution, insurance company, pension fund, mutual fund, endowment or other organization which regularly acquires debt instruments for investment.

"LIEN" shall mean any mortgage, pledge, security interest, encumbrance, lien (statutory or otherwise) or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction) or any other type of preferential arrangement for the purpose,

or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

"MANAGEMENT AGREEMENT" shall have the meaning set forth in paragraph 3E.

"MANAGEMENT FEE" shall mean a monthly fee equal to 4% of the steam, hot water and chilled water gross revenues of the Company collected during the immediately preceding month, payable in arrears by the Company to Manager for the services rendered by Manager during such month pursuant to the Management Agreement.

"MANAGER" shall mean NRG Operating Services, Inc., a Delaware corporation.

"MASTER PURCHASE AGREEMENT" shall mean the Master Purchase Agreement of even date herewith between ECPLP and the Company.

"MECI" shall mean Minneapolis Energy Center Inc.

"MISCELLANEOUS PERMITS" shall have the meaning set forth in paragraph 5H(1).

"MORTGAGE" shall have the meaning set forth in paragraph 3F.

"MULTIEMPLOYER PLAN" shall mean any Plan which is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NRG" shall mean NRG Energy, Inc., a Delaware corporation.

"NSP" shall mean Northern States Power Company, a Minnesota corporation.

"OFFICER'S CERTIFICATE" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents or its Treasurer.

"OPERATING INCOME" shall mean, for any period, (i) the sum of (A) the net earnings (or loss) of the Company and/or of ECPLP, as the case may be, for such period, (B) any net loss, net of applicable tax

effect, realized (1) in connection with extraordinary items or transactions of a non-recurring or non-operating and material nature or (2) upon disposition of capital assets or the discontinuance of capital assets or the discontinuance of operations for such period, (C) tax expense for such period, and (D) interest expense (including the interest component of Capitalized Lease Obligations) for such period, less (ii) the sum of (A) any net gain, net of applicable tax effect, realized (1) in connection with extraordinary items or transactions of a non-recurring or non-operating and material nature or (2) upon disposition of capital assets or the discontinuance of capital assets or the discontinuance of operations for such period and (B) income attributable to sources other than operations for such period, including without limitation interest income, in each case determined in accordance with generally accepted accounting principles.

"OPERATING INCOME AVAILABLE FOR DEBT EXPENSE" shall mean, for any period, the sum of (i) Operating Income of the Company and/or of ECPLP, as the case may be, for such period, (ii) depreciation and amortization for such period determined in accordance with generally accepted accounting principles, and (iii) the aggregate amount of the Management Fee accrued for such period.

"PERSON" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"PERSONAL PROPERTY AGREEMENT" shall mean the Purchase Agreement of even date herewith between ECPLP and the Company executed pursuant to the Master Purchase Agreement.

"PLAN" shall mean any "employee pension benefit plan" (as such term is

defined in section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Company or any ERISA Affiliate.

"PROJECT" shall mean, collectively, the steam, hot water and chilled water plant, parking structure and commercial space located in Minneapolis, Minnesota and known as the Minneapolis Energy Center, satellite steam and chilled water generation facilities, and other offsite property located on the property of others, all in Minneapolis, Minnesota and now or hereafter comprising the assets, properties and rights of the business of and known as the Minneapolis Energy Center, including without limitation all developments and improvements relating to the expansion of the productive capacity of any components thereof.

"PRUDENTIAL" shall mean The Prudential Insurance Company of America.

"PRUDENTIAL AFFILIATE" shall mean any corporation or other entity all of the Voting Stock (or equivalent voting securities or interests) of which is owned by Prudential either directly or through Prudential Affiliates.

"PURCHASE AGREEMENTS" shall mean, collectively, the Master Purchase Agreement, the Personal Property Agreement and the Real Property Agreement.

"PURCHASE DOCUMENTS" shall mean, collectively, the Purchase Agreements, the Escrow Agreement, and all other agreements, documents and instruments executed in connection with the transactions contemplated by the Master Purchase Agreement.

"REAL PROPERTY AGREEMENT" shall mean the Real Property Purchase Agreement of even date herewith between ECPLP and the Company executed pursuant to the Master Purchase Agreement.

"RENT LIMIT" shall have the meaning set forth in paragraph 6B(5).

"REQUIRED HOLDER(S)" shall mean the holder or holders of at least 66 2/3% of the aggregate principal amount of the Notes from time to time outstanding.

"RESPONSIBLE OFFICER" shall mean the chief executive officer, chief operating officer, chief financial officer or chief accounting officer of the Company or any other officer of the Company involved principally in its financial administration or its controllership function.

"REVOLVING NOTES" shall have the meaning set forth in paragraph 6B(2)(iii).

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SERVICE AGREEMENTS" shall have the meaning set forth in paragraph 5H(1).

"SERVICE CONTRACTS" shall have the meaning set forth in paragraph 5H(1).

"SHELF NOTES" shall mean, collectively, Term Notes from time to time issued pursuant to the Credit Agreement in an aggregate principal amount not to exceed $10,000,000.

"SIGNIFICANT HOLDER" shall mean (i) each Purchaser, so long as such Purchaser shall hold (or be committed under this Agreement to purchase) any Note, or (ii) any other holder of at least 5% of the aggregate principal amount of the Notes from time to time outstanding.

"SUBSIDIARY" shall mean any corporation or other Person in which, at the time as of which any determination is being made, the Company owns a Controlling Interest either directly or through Subsidiaries.

"TITLE INSURANCE COMMITMENT" shall have the meaning set forth in paragraph 3I.

"TOTAL CAPITALIZATION" shall mean the sum of stockholders' equity and Funded Debt of the Company.

"TRANSFEREE" shall mean any direct or indirect transferee of all or any part of any Note purchased by any Purchaser under this Agreement.

"TWIN CITY" shall mean Twin City Testing Corporation.

"VOTING STOCK" shall mean, with respect to any corporation, any shares of stock of such corporation whose holders are entitled under ordinary circumstances to vote for the election of directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

10C. ACCOUNTING PRINCIPLES, TERMS AND DETERMINATIONS. All references in this Agreement to "generally accepted accounting principles" shall be deemed to refer to generally accepted accounting principles in effect in the United States at the time of application thereof. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all unaudited financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with generally accepted accounting principles, applied on a basis consistent with the most recent audited financial statements of the Company delivered pursuant to clause (ii) of paragraph 5A or, if no such statements have been so delivered, the pro forma financial statements referred to in paragraph 8B(2).

11. MISCELLANEOUS.

11A. NOTE PAYMENTS. The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City time, on the date due) to such Purchaser's account or accounts as specified in the Purchaser Schedule attached hereto, or such other account or accounts in the United States as such Purchaser may from time to time designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, such Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as each Purchaser has made in this paragraph 11A.

11B. EXPENSES. The Company agrees, whether or not the transactions contemplated hereby shall be consummated, to pay, and save each Purchaser, the Collateral Agent, and, to the extent provided herein, any Transferee harmless against liability for the payment of, all out-of-pocket expenses arising in connection with such transactions, including (i) all reasonable document production and

duplication charges and the fees and expenses of any special counsel engaged by such Purchaser or the Collateral Agent in connection with this Agreement, the Mortgage, the Collateral Agency Agreement, th Acknowledgment or the Notes or the transactions contemplated hereby or thereby, (ii) all reasonable document production and duplication charges and fees and expenses of any special counsel engaged by the holder of any Note in connection with any subsequent proposed modification of, or proposed consent under, or proposed notice, instruction or direction given pursuant to this Agreement, the Mortgage, the Collateral Agency Agreement, the Acknowledgment or the Notes, whether or not such proposed modification shall be effected, or proposed consent granted, or proposed notice, instruction or direction given, (iii)

the costs and expenses, including attorneys' fees, incurred by the holder of any Note, or (with respect to the Mortgage) by the Collateral Agent on behalf of any holder of any Note, in enforcing (or determining whether or how to enforce) any rights under this Agreement, the Mortgage, the Acknowledgment or the Notes, and (iv) the costs and expenses, including attorneys' fees, incurred by any Purchaser or any Transferee in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Mortgage, the Collateral Agency Agreement, the Acknowledgment or the Notes or the transactions contemplated hereby or thereby or by reason of such Purchaser's or such Transferee's having acquired any Note, including without limitation costs and expenses incurred in any bankruptcy case. The obligations of the Company under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by any Purchaser or any Transferee and the payment of any Note.

11C. CONSENT TO AMENDMENTS. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) except that, without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to this Agreement shall change the maturity of any Note, or change the principal of, or the rate or time of payment of interest on or any Yield-Maintenance Amount payable with respect to any Note, or affect the time, amount or allocation of any prepayments, or change the proportion of the principal amount of the Notes required with respect to any consent, amendment, waiver or declaration. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. FORM, REGISTRATION, TRANSFER AND EXCHANGE OF NOTES; LOST NOTES. The Notes are issuable as registered notes without coupons in denominations of at least $1,000,000, except as may be necessary to reflect any principal amount not evenly divisible by $1,000,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such holder's unsecured indemnity agreement, or in the case of any such mutilation upon

surrender and cancellation of such Note, the Company will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note. Notwithstanding anything to the contrary herein, each Purchaser agrees,

and each Transferee by its acceptance of an interest in a Note agrees, that no Note (or any interest therein) shall be transferred to any Person which is not an Institutional Investor.

11E. PERSONS DEEMED OWNERS; PARTICIPATIONS. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in all or any part of such Note to any Person on such terms and conditions as may be determined by such holder in its sole and absolute discretion, provided that any such participation shall be in a principal amount of at least $1,000,000.

11F. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT. All representations and warranties contained herein or in the Notes, the Mortgage or the Acknowledgment or made in writing by or on behalf of the Company in connection herewith shall survive the execution and delivery of this Agreement, the Notes, the Mortgage and the Acknowledgment, the transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of any Purchaser or any Transferee. Subject to the preceding sentence, this Agreement, the Notes, the Mortgage and the Acknowledgment embody the entire agreement and understanding between the Purchasers and the Company (the Collateral Agency Agreement being among the Lenders and the Collateral Agent only) and supersede all prior agreements and understandings relating to the subject matter hereof.

11G. SUCCESSORS AND ASSIGNS. All covenants and other agreements in this Agreement made by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including, without limitation, any Transferee), and, with respect to any Purchaser or Transferee, any nominee thereof, whether so expressed or not.

11H. DISCLOSURE TO OTHER PERSONS. Each Purchaser agrees, and each Transferee by its acceptance of an interest in any Note agrees, to use its best efforts to hold in confidence and not disclose any Confidential Information; provided that nothing herein shall prevent a Purchaser or a Transferee from delivering or disclosing (and the Company acknowledges that each Purchaser and Transferee may deliver or disclose) any financial statements and other documents delivered to it, and any other information disclosed to it (including, but not limited to, Confidential Information), by or on behalf of the Company, either directly or through any Person referred to in paragraph 5C, in connection with or pursuant to this Agreement to (i) its directors, officers, employees, agents and professional consultants, (ii) any other holder of any Note, (iii) any Person to which it offers to sell any Note or any part thereof, (iv) any Person to which it sells or offers to sell a participation in all or any part of any Note, (v) any Person from which it offers to purchase any security of the Company, (vi) any federal or state regulatory authority having jurisdiction over it, (vii) the National Association of Insurance Commissioners or any similar organization or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (a) to effect compliance with any law, rule, regulation or order applicable to it, (b) in response to any subpoena or other legal process or informal investigative demand, (c) in connection with any litigation to which it is a party, or (d) in order to protect its investment in any Note.

11I. NOTICES. All written communications provided for hereunder shall be sent by first class mail or nationwide overnight delivery service with charges prepaid and (i) if to any Purchaser, addressed to such Purchaser at the address specified for such communications in the Purchaser Schedule attached hereto, or at such other address as such Purchaser shall have specified to the Company in writing, (ii) if to any other holder of any Note, addressed to such other holder at such address as such other holder shall have specified to the Company in writing or, if any such other holder shall

not have so specified an address to the Company, then addressed to such other holder in care of the last holder of such Note which shall have so specified an address to the Company, and (iii) if to the Company, addressed to it at

1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota 55403-2445, Attention: President, or at such other address as the Company shall have specified to the holder of each Note in writing; provided, however, that any such communication to the Company may also, at the option of the holder of any Note, be delivered by any other means either to the Company at its address specified above or to any officer of the Company.

11J. PAYMENTS DUE ON NON-BUSINESS DAYS. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or interest on, or Yield-Maintenance Amount payable with respect to, any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall be included in the computation of the interest payable on such Business Day.

11K. SATISFACTION REQUIREMENT. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to any Purchaser, or any holder of Notes or to the Required Holder(s), the determination of such satisfaction shall be made by such Purchaser, such holder or the Required Holder(s), as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11L. GOVERNING LAW. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of Minnesota.

11M. SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11N. DESCRIPTIVE HEADINGS. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11O. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument.

11P. SEVERALTY OF OBLIGATIONS. The sales of Notes to the Purchasers are to be several sales, and the obligations of the Purchasers under this Agreement are several obligations. Except as provided in paragraph 3O, no failure by any Purchaser to perform its obligations under this Agreement shall relieve any other Purchaser or the Company of any of its obligations hereunder, and no Purchaser shall be responsible for the obligations of, or any action taken or omitted by, any other Purchaser hereunder.

11Q. RELATIONSHIP AMONG HOLDERS. No holder of a Note shall have by reason of this Agreement, the Mortgage, the Collateral Agency Agreement or the Notes a fiduciary relationship in respect of any other holder. Nothing in this Agreement, the Mortgage, the Collateral Agency Agreement or the Notes, express or implied, is intended to or shall be construed to impose upon any holder any obligation in respect of this Agreement, the Mortgage, the Collateral Agency Agreement or the Notes except as expressly set forth herein or therein. Each holder has made its own independent investigation of the financial condition and affairs of the Company and the Project in connection with its purchase of the Notes and no holder shall have any duty or responsibility, either initially or on a continuing basis, to provide any

other holder with any credit or other information.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterparts of this letter and return the same to the Company, whereupon this letter shall become a binding agreement among the Company and the Purchasers.

Very truly yours,

NRG ENERGY CENTER, INC.

By /s/ Ronald J. Will

Title: President

The foregoing Agreement is hereby accepted as of the date first above written.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By /s/ P. Scott von Fischer

Vice President

CONNECTICUT GENERAL LIFE INSURANCE COMPANY
By CIGNA Investments, Inc.

By: /s/ Name

Managing Director

ALLEGIANCE INSURANCE COMPANY
By CIGNA Investments, Inc.

By: /s/ Name

Managing Director

CONNECTICUT GENERAL LIFE INSURANCE COMPANY
on behalf of one or more separate accounts
By CIGNA Investments, Inc.

By: /s/ Name

Managing Director

THE NORTH ATLANTIC LIFE INSURANCE COMPANY OF AMERICA

By: /s/ Mark S. Jordahl

Title: Mark S. Jordahl
Assistant Treasurer

NORTHWESTERN NATIONAL LIFE INSURANCE COMPANY

By: /s/ Mark S. Jordahl

Title: Mark S. Jordahl
Authorized Representative

PURCHASER SCHEDULE

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	$72,000,000	$64.551,538.82 $ 7,448,461.18

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account No. 050-54-526 (in the case of payments on account of Note originally issued in the principal amount of $64,551,538.82) [GENERAL ACCOUNT]

Account No. 000-01-159 (in the case of payments on account of the Note originally issued in the principal amount of $7,448,461.18) [PRIVEST]

Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015
(ABA No.: 021-000-238)

Each such wire transfer shall set forth the name of the Company, a reference to "7.31% Senior Secured Note due June 15, 2013, Security No. INV*, and the due date and application (as among principal, interest and Yield-Mainten-ance Amount for each of the Notes with respect to which payment is being made) of the payment being made.

(2) Address for all notices relating to payments:

The Prudential Insurance Company of America
c/o Prudential Capital Group
Three Gateway Center
100 Mulberry Street
Newark, New Jersey 07102-4077
Attention: Investment Administration Unit

(3) Address for all other communications and notices:

The Prudential Insurance Company of America
c/o Prudential Capital Group
Two Prudential Plaza
Suite 5600
Chicago, Illinois 60601-6716

Attention: Managing Director

(4) Recipient of telephonic prepayment notices:

Manager, Asset Management Unit (201) 802-6429

(5) Tax Identification No.: 22-1211670

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
CONNECTICUT GENERAL LIFE INSURANCE COMPANY	$5,000,000	$5,000,000 (To be issued to CIG & Co. as nominee)

(1) All payments on account of Notes held on behalf of such purchaser by its nominee, CIG & Co., shall be made by wire transfer of immediately available funds for credit to:

Fed ABA #021000021 CHASE
NYC/CTR/BNF = CIGNA PRIVATE
PLACEMENTS/AC = 9009001802

Each such wire transfer shall set forth the name of the Company, a reference to "OBI = 7.31% Senior Secured Notes due June 15, 2013, Security No. INV*," and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

NOTE: Purchaser requires notice of each payment to:

Chase Manhattan Bank, N.A.
Private Placement Servicing
P.O. Box 1508, Bowling Green Station
New York, New York 10081
Attention: CIGNA Private Placements
FAX: 212-552-3107/1005

(2) Address for all notices relating to payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Securities Accounting
Department (S-206)

CIG & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Private Securities
Division (S-307)

NOTE: For notices sent by overnight courier, express mail or messenger, substitute "900 Cottage Grove Road, Bloomfield, CT 06002" in place of "Hartford, CT 06152".

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
(3) Address for all other communications and notices: CIG & Co. c/o CIGNA Investments, Inc. Hartford, CT 06152 Attention: Private Securities Division (S-307) NOTE: For notices sent by overnight courier, express mail or messenger, substitute "900 Cottage Grove Road, Bloomfield, CT 06002" in place of "Hartford, CT 06152." (4) Recipient of telephonic prepayment notices: James G. Schelling (203) 726-6314 (5) Tax Identification No.: 13-3574027		
THE NORTH ATLANTIC LIFE INSURANCE COMPANY OF AMERICA	S3,000,000	$3,000,000
(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to: Account No.: 5186041000 Northern Trust Company (ABA No.: 071-000-152) Attention: MBS Department Each such wire transfer shall set forth the name of the Company, a reference to "7.31% Senior Secured Notes due June 15, 2013, Security No. INV*," the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made, and "Ref: 26-67303, private placement." (2) Address for all notices relating to payments: The North Atlantic Life Insurance Company of America c/o Washington Square Capital, Inc. 100 Washington Square, Suite 800 Minneapolis. Minnesota 55401-2147 Attention: James Wittich (3) Address for all other communications and notices: Northwestern National Life Insurance Company c/o Washington Square Capital, Inc. 100 Washington Square, Suite 800 Minneapolis, Minnesota 55401-2147 Attention: James Wittich		

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
(4) Recipient of telephonic prepayment notices: James Wittich (612) 342-3553 (5) Tax Identification No.: 11-1983132		
NORTHWESTERN NATIONAL LIFE INSURANCE COMPANY	$2,000,000	$2,000,000

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account No. 1102-4001-4461

First National Bank N. A./Mpls
601 2nd Avenue South
Minneapolis, Minnesota
(ABA No.: 091-000-022)
Attention: Securities Accounting

Each such wire transfer shall set forth the name of the Company, a reference to "7.31% Senior Secured Notes due June 15, 2013, Security No. INV*," and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

Northwestern National Life Insurance Company
c/o Washington Square Capital, Inc.
100 Washington Square, Suite 800
Minneapolis, Minnesota 55401-2147
Attention: James Wittich

(3) Address for all other communications and notices:

Northwestern National Life Insurance Company
c/o Washington Square Capital, Inc.
100 Washington Square, Suite 800
Minneapolis, Minnesota 55401-2147
Attention: James Wittich

(4) Recipient of telephonic prepayment notices:

James Wittich
(612) 342-3553

(5) Tax Identification No.: 41-0451140

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
ALLEGIANCE INSURANCE COMPANY	$1,000,000	$1.000,000 (To be issued to Zande & Co. as nominee)

(1) All payments on account of Notes held on behalf of such purchaser by its nominee, Zande & Co., shall be made by wire transfer of immediately available funds for credit to:

Morgan Guaranty Trust Company of New York
(ABA No.: 021-000-238)
BTR/BNF = CUSTZ/AC-99999024/Z
ATTN: CUST. SVC. ALLEGIANCE INSURANCE COMPANY
a/c 36637

Each such wire transfer shall set forth the name of the Company, a reference to "7.31% Senior Secured Notes due June 15, 2013, Security No. INV*," and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

Zande & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Securities Accounting Department (S-206)

Zande & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Private Securities Division (S-307)

NOTE: For notices sent by overnight courier, express mail or messenger, substitute "900 Cottage Grove Road, Bloomfield, CT 06002" in place of "Hartford, CT 06152."

(3) Address for all other communications and notices:

Zande & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Private Securities Division (S-307)

NOTE: For notices sent by overnight courier, express mail or messenger, substitute "900 Cottage Grove Road, Bloomfield, CT 06002" in place of "Hartford, CT 06152."

(4) Recipient of telephonic prepayment notices:

James G. Scheiling
(203) 726-6314

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
(5) Tax Identification No.: 13-6020804		
CONNECTICUT GENERAL LIFE INSURANCE COMPANY, on behalf of one or more separate accounts	$1,000,000	$1,000,000 (to be issued to CIG & Co. as nominee)

(1) All payments on account of Notes held on behalf of such purchaser by its nominee, CIG & Co., shall be made by wire transfer of immediately available funds for credit to:

Fed ABA #021000021 CHASE
NYC/CTR/BNF = CIGNA PRIVATE
PLACEMENTS/AC = 9009001802

Each such wire transfer shall set forth the name of the Company, a reference to "OBI = 7.31% Senior Secured Notes due June 15, 2013, Security No. INV*," and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

NOTE: Purchaser requires notice of each payment to:

Chase Manhattan Bank, N.A.
Private Placement Servicing
P.O. Box 1508, Bowling Green Station
New York. New York 10081
Attention: CIGNA Private Placements
FAX: 212-552-3107/1005

(2) Address for all notices relating to payments:

CIG & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention:Securities Accounting Department (S-206)

CIG & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Private Securities Division (S-307)

NOTE: For notices sent by overnight courier, express mail or messenger, substitute "900 Cottage Grove Road, Bloomfield, CT 06002" in place of "Hartford, CT 06152,"

PURCHASER	AGGREGATE PRINCIPAL AMOUNT OF NOTES TO BE PURCHASED	NOTE DENOMINATION(S)
- ----------	----------	----------

(3) Address for all other communications and notices:

CIG & Co.
c/o CIGNA Investments, Inc.
Hartford, CT 06152
Attention: Private Securities Division (S-307)

NOTE: For notices sent by overnight courier, express mail or messenger, substitute "900 Cottage Grove Road. Bloomfield, CT 06002" in place of "Hartford, CT 06152."

(4) Recipient of telephonic prepayment notices:

James G. Schelling
(203) 726-6314

(5) Tax Identification No.: 13-3574027

AMORTIZATION SCHEDULE

(BASED UPON $1,000,000 OF PRINCIPAL)

[SEE ATTACHED SCHEDULE I]

SCHEDULE I

NRG ENERGY CENTER, INC. -PAYMENT SCHEDULE
AMOUNTS EXPRESSED ARE PER $1,000,000 OF OUTSTANDING PRINCIPAL

DATE	PRINCIPAL DUE	PRINCIPAL OUTSTANDING
09/15/93		1,000,000.00
12/15/93	$ 5,743.98	994,256.02
03/15/94	5,818.95	988,407.06
06/15/94	5,955.84	982,451.22
09/15/94	6,064.69	976,386.53
12/15/94	6,175.52	970,211.01
03/15/94	6,288.38	963,922.63

06/15/95	6,403.30	957,519.33
09/15/95	6,520.32	950,999.02
12/15/95	6,639.48	944,359.54
03/15/96	6,760.81	937,598.73
06/15/96	6,884.37	930,714.36
09/15/96	7,010.18	923,704.18
12/15/96	7,138.29	916,565.89
03/15/97	7,268.74	909,297.15
06/15/97	7,401.58	901,895.57
09/15/97	7,536.84	894,358.73
12/15/97	7,674.58	886,684.15
03/15/98	7,814.83	878,869.32
06/15/98	7,957.65	870,911.67
09/15/98	8,103.07	862,808.60
12/15/98	8,251.16	854,557.45
03/15/99	8,401.95	846,155.50
06/15/99	8,555.49	837,600.01
09/15/99	8,711.84	828,888.16
12/15/99	8,871.05	820,017.11
03/15/2000	9,033.17	810,983.94
06/15/2000	9,198.25	801,785.69
09/15/2000	9,366.35	792,419.34
12/15/2000	9,537.52	782,881.82
03/15/2001	9,711.82	773,170.00
06/15/2001	9,889.30	763,280.70
09/15/2001	10,070.03	753,210.67
12/15/2001	10,254.06	742,956.61
03/15/2002	10,441.45	732,515.16
06/15/2002	10,632.27	721,882.89
09/15/2002	10,826.57	711,056,32
12/15/2002	11,024.43	700,031.89
03/15/2003	11,225.90	688,805.99
06/15/2003	11,431.05	677,374.93

DATE	PRINCIPAL DUE	PRINCIPAL OUTSTANDING
09/15/2003	11,639.96	665,734.97
12/15/2003	11,852.65	653,882.30
03/15/2004	12,069.28	641,813.01
06/15/2004	12,289.85	629,523.16
09/15/2004	12,514.45	617,005.71
12/15/2004	12,743.15	604,265.57
03/15/2005	12,976.03	591,259.53
06/15/2005	13,213.17	578,076.37
09/15/2005	13,454.64	564,621.73
12/15/2005	13,700.52	550,921.21
03/15/2006	13,950.90	536,970.31
06/15/2006	14,205.85	522,764.46
09/15/2006	14,465.46	505,298.99
12/15/2006	14,729.82	493,569.15
03/15/2007	14,999.01	478,570.17
06/15/2007	15,273.11	463,297.05
09/15/2007	15,552.23	447,744.82
12/15/2007	15,836.45	431,908.38
03/15/2008	16,125.86	415,782.52
06/15/2008	16,420.56	399,361.96
09/15/2008	16,720.64	382,641.32
12/15/2008	17,026.21	365,615.10
03/15/2009	17,337.37	348,277.74
06/15/2009	17,654.21	330,623.53
09/15/2009	17,976.84	312,646.69
12/15/2009	18,305.37	294,341.32
03/15/2010	18,639.90	275,701.43
06/15/2010	18,980.54	256,720.89

09/15/2010	19,327.41	237,393.48
12/15/2010	19,680.62	217,712.86
03/15/2011	20,040.25	197,672.55
06/15/2011	20,406.52	177,266.06
09/15/2011	20,779.45	156,486.62
12/15/2011	21,159.19	135,327.43
03/15/2012	21,545.87	113,781.55
06/15/2012	21,939.63	91,841.93
09/15/2012	22,340.57	69,501.35
12/15/2012	22,748.85	46,752.51
03/15/2013	23,164.58	23,557.93
06/15/2013	23,587.93	(0.00)

CIGNA INVESTMENT
MANAGEMENT
PRIVATE SECURITIES

June 9, 1994

900 Cottage Grove Road
Bloomfield, CT
06152-2307
Telephone (203)
726-3723
Facsimile (203)
726-7203

Mr. Thomas Guglielmi
Chief Financial Officer
MINNEAPOLIS ENERGY CENTER
1060 IDS Center
80 South Street
Minneapolis, MN 55402

Dear Mr. Guglielmi:

Your inquiry June 6 to Jim Schelling has been passed on to me. Please understand that the transfer and re-registration of NRG Energy Center, Inc., 7.31% Senior Secured Notes due 06/15/2013 is an internal transfer with CIGNA Investments, Inc. and does not constitute a change in beneficial ownership.

Unfortunately, we split our custodial services between two banks, Chase Manhattan in New York (nominee registration of CIG & Co.) and Morgan Guaranty Trust Company of New York (nominee registration of ZANDE & Co.) The split is based on the internal CIGNA portfolio's bank account. Due to this internal transfer, we have had to ask you to assist us with such re-registration from ZANDE & Co. to CIG & Co. I have thus endosed wiring instructions for CIG & Co.

We sincerely apologize for any inconvenience caused to you and thank you for your cooperation in this matter. If you should have any questions regarding this re-registration or on other operational issues with CIGNA, please do not hesitate to call me.

/s/
- ------------------------------
Approval: James G. Schelling
Managing Director

Sincerely,

Aija Zigmunds

Information Systems Analyst

cc: J.G. Schelling

PAYMENT INSTRUCTIONS

CIG & CO.
TAX I.D. #13-3574027

Wire all payments to: FED ABA 021000021
CHASE NYC/CTR
BNF = CIGNA PRIVATE PLACEMENTS/AC=9009001802

OBI = (PPN) (MAT) (COUPON)
P=$ I=$

All information pertaining to this transfer must be in the "OBI" field of the fed message. You must include in this field issuer name, unique private placement number (PPN), rate and maturity date, as noted above, followed by principal and interest split, if applicable; otherwise the payment cannot be processed. With the exception of the principal and interest split, all fields describing the payment are constant. Once you implement this new format, you will only need to input the new dollar amounts for the principal, interest or prepayment amounts. Please remember that this format should be used for each private placement issue (each PPN), i.e. one wire payment per issue for all securities of that issue for all securities of that issue registered in the name of CIG & Co. Also, please include any other information necessary to identify the payment, including the payable date, contact name and telephone number. In all cases of remittance advices, especially those related to asset pools or other notices with respect to payments, the information must be received at the time the wire is initiated. A transmission of such remittance advice or notice is required.

Send originals to:

CIG & CO.
C/O CIGNA INVESTMENTS, INC.
ATTN: SECURITIES PROCESSING S-206
HARTFORD, CT 06152-2206

FAX: (203) 726-4552

Send duplicate copies to:

CHASE MANHATTAN BANK, N.A.
PRIVATE PLACEMENT SERVICING
P. O. BOX 1508
ATTN: CIGNA PRIVATE PLACEMENTS
BOWLING GEEEN STATION, NY 10081
FAX: (212) 552-3107/1005

In case of all other communications, mail to:

CIG & CO.
C/O CIGNA INVESTMENTS, INC.,
ATTN: PRIVATE SECURITIES DIVISION, S-307
HARTFORD, CT 06152-2307

In the event that notices/communications to CIGNA Investments, Inc. are SENT BY COURIER (e.g., Federal Express, Airborne) or express mail rather than by regular U.S. Postal Service, please use the following address:

CIG & CO.
C/O CIGNA INVESTMENTS, INC.
ATTN: PRIVATE SECURITIES DIVISION, S-307
900 COTTAGE GROVE ROAD
BLOOMFIELD, CT 06002

NRG ENERGY CENTER, INC. (D/B/A MINNEAPOLIS ENERGY CENTER)
7.31% SENIOR SECURED NOTE DUE JUNE 15, 2013
PRINCIPAL AND INTEREST PAYMENT AMORTIZATION SCHEDULE

DATE OF PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL BALANCE
Aug 20, 1993				84,000,000.00
Sep 15, 1993	--	426,416.67	426,416.67	84,000,000.00
Dec 15, 1993	482,494.63	1,535,100.00	2,017,594.63	83,517,505.37
1993 ACTIVITY	482,494.63	1,961,516.67	2,444,011.30	83,517,505.37
Mar 15, 1994	491,312.22	1,526,282.41	2,017,594.63	83,026,193.15
Jun 15, 1994	500,290.95	1,517,303.68	2,017,594.63	82,525,902.20
Sep 15, 1994	509,433.77	1,508,160.86	2,017,594.63	82,016,468.43
Dec 15, 1994	518,743.67	1,498,850.96	2,017,594.63	81,497,724.76
1994 ACTIVITY	2,019,780.61	6,050,597.91	8,070,378.52	81,497,724.76
Mar 15, 1995	528,223.71	1,489,370.92	2,017,594.63	80,969,501.05
Jun 15, 1995	537,877.00	1,479,717.63	2,017,594.63	80,431,624.05
Sep 15, 1995	547,706.70	1,469,887.93	2,017,594.63	79,883,917.35
Dec 15, 1995	557,716.04	1,459,878.59	2,017,594.63	79,326,201.31
1995 ACTIVITY	2,171,523.45	5,898,855.07	8,070,378.52	79,326,201.31
Mar 15, 1996	567,908.30	1,449,686.33	2,017,594.63	78,758,293.01
Jun 15, 1996	578,286.83	1,439,307.80	2,017,594.63	78,180,006.18
Sep 15, 1996	588,855.02	1,428,739.61	2,017,594.63	77,591,151.16
Dec 15, 1996	599,616.34	1,417,978.29	2,017,594.63	76,991,534.82
1996 ACTIVITY	2,334,666.49	5,735,712.03	8,070,378.52	76,991,534.82
Mar 15, 1997	610,574.33	1,407,020.30	2,017,594.63	76,380,960.49
Jun 15, 1997	621,732.58	1,395,862.05	2,017,594.63	75,759,227.91
Sep 15, 1997	633,094.74	1,384,499.89	2,017,594.63	75,126,133.17
Dec 15, 1997	644,664.55	1,372,930.08	2,017,594.63	74,481,468.62
1997 ACTIVITY	2,510,066.20	5,560,312.32	8,070,378.52	74,481,468.62
Mar 15, 1998	656,445.79	1,361,148.84	2,017,594.63	73,825,022.83
Jun 15, 1998	668,442.34	1,349,152.29	2,017,594.63	73,156,580.49
Sep 15, 1998	680,658.12	1,336,936.51	2,017,594.63	72,475,922.37
Dec 15, 1998	693,097.15	1,324,497.48	2,017,594.63	71,782,825.22
1998 ACTIVITY	2,698,643.40	5,371,735.12	8,070,378.52	71,782,825.22

NRG ENERGY CENTER, INC. (D/B/A MINNEAPOLIS ENERGY CENTER)
7.31% SENIOR SECURED NOTE DUE JUNE 15, 2013
PRINCIPAL AND INTEREST PAYMENT AMORTIZATION SCHEDULE

DATE OF PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL BALANCE

Mar 15, 1999	705,763.50	1,311,831.13	2,017,594.63	71,077,061.72
Jun 15, 1999	718,661.33	1,298,933.30	2,017,594.63	70,358,400.39
Sep 15, 1999	731,794.86	1,285,799.77	2,017,594.63	69,626,605.53
Dec 15, 1999	745,168.41	1,272,426.22	2,017,594.63	68,881,437.12
1999 ACTIVITY	2,901,388.10	5,168,990.42	8,070,378.52	68,881,437.12
Mar 15, 2000	758,786.37	1,258,808.26	2,017,594.63	68,122,650.75
Jun 15, 2000	772,653.19	1,244,941.44	2,017,594.63	67,349,997.56
Sep 15, 2000	786,773.42	1,230,821.21	2,017,594.63	66,563,224.14
Dec 15, 2000	801,151.71	1,216,442.92	2,017,594.63	65,762,072.43
2000 ACTIVITY	3,119,364.69	4,951,013.83	8,070,378.52	65,762,072.43
Mar 15, 2001	815,792.76	1,201,801.87	2,017,594.63	64,946,279.67
Jun 15, 2001	830,701.37	1,186,893.26	2,017,594.63	64,115,578.30
Sep 15, 2001	845,882.44	1,171,712.19	2,017,594.63	63,269,695.86
Dec 15, 2001	861,340.94	1,156,253.69	2,017,594.63	62,408,354.92
2001 ACTIVITY	3,353,717.51	4,716,661.01	8,070,378.52	62,408,354.92
Mar 15, 2002	877,081.94	1,140,512.69	2,017,594.63	61,531,272.98
Jun 15, 2002	893,110.62	1,124,484.01	2,017,594.63	60,638,162.36
Sep 15, 2002	909,432.21	1,108,162.42	2,017,594.63	59,728,730.15
Dec 15, 2002	926,052.09	1,091,542.54	2,017,594.63	58,802,678.06
2002 ACTIVITY	3,605,676.86	4,464,701.66	8,070,378.52	58,802,678.06
Mar 15, 2003	942,975.69	1,074,618.94	2,017,594.63	57,859,702.37
Jun 15, 2003	960,208.57	1,057,386.06	2,017,594.63	56,899,493.80
Sep 15, 2003	977,756.38	1,039,838.25	2,017,594.63	55,921,737.42
Dec 15, 2003	995,624.88	1,021,969.75	2,017,594.63	54,926,112.54
2003 ACTIVITY	3,876,565.52	4,193,813.00	8,070,378.52	54,926,112.54
Mar 15, 2004	1,013,819.92	1,003,774.71	2,017,594.63	53,912,292.62
Jun 15, 2004	1,032,347.48	985,247.15	2,017,594.63	52,879,945.14
Sep 15, 2004	1,051,213.63	966,381.00	2,017,594.63	51,828,731.51
Dec 15, 2004	1,070,424.56	947,170.07	2,017,594.63	50,758,306.95
2004 ACTIVITY	4,167,805.59	3,902,572.93	8,070,378.52	50,758,306.95

NRG ENERGY CENTER, INC. (D/B/A MINNEAPOLIS ENERGY CENTER)
7.31% SENIOR SECURED NOTE DUE JUNE 15, 2013
PRINCIPAL AND INTEREST PAYMENT AMORTIZATION SCHEDULE

DATE OF PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL BALANCE
Mar 15, 2005	1,089,986.57	927,608.06	2,017,594.63	49,668,320.38
Jun 15, 2005	1,109,906.08	907,688.55	2,017,594.63	48,558,414.30
Sep 15, 2005	1,130,189.61	887,405.02	2,017,594.63	47,428,224.69
Dec 15, 2005	1,150,843.82	866,750.81	2,017,594.63	46,277,380.87
2005 ACTIVITY	4,480,926.08	3,589,452.44	8,070,378.52	46,277,380.87
Mar 15, 2006	1,171,875.49	845,719.14	2,017,594.63	45,105,505.38
Jun 15, 2006	1,193,291.52	824,303.11	2,017,594.63	43,912,213.86

Sep 15, 2006	1,215,098.92	802,495.71	2,017,594.63	42,697,114.94
Dec 15, 2006	1,237,304.85	780,289.78	2,017,594.63	41,459,810.09
2006 ACTIVITY	4,817,570.78	3,252,807.74	8,070,378.52	41,459,810.09
Mar 15, 2007	1,259,916.60	757,678.03	2,017,594.63	40,199,893.49
Jun 15, 2007	1,282,941.58	734,653.05	2,017,594.63	38,916,951.91
Sep 15, 2007	1,306,387.33	711,207.30	2,017,594.63	37,610,564.58
Dec 15, 2007	1,330,261.56	687,333.07	2,017,594.63	36,280,303.02
2007 ACTIVITY	5,179,507.07	2,890,871.45	8,070,378.52	36,280,303.02
Mar 15, 2008	1,354,572.09	663,022.54	2,017,594.63	34,925,730.93
Jun 15, 2008	1,379,326.90	638,267.73	2,017,594.63	33,546,404.03
Sep 15, 2008	1,404,534.10	613,060.53	2,017,594.63	32,141,869.93
Dec 15, 2008	1,430,201.96	587,392.67	2,017,594.63	30,711,667.97
2008 ACTIVITY	5,568,635.05	2,501,743.47	8,070,378.52	30,711,667.97
Mar 15, 2009	1,456,338.90	561,255.73	2,017,594.63	29,255,329.07
Jun 15, 2009	1,482,953.49	534,641.14	2,017,594.63	27,772,375.58
Sep 15, 2009	1,510,054.47	507,540.16	2,017,594.63	26,262,321.11
Dec 15, 2009	1,537,650.71	479,943.92	2,017,594.63	24,724,670.40
2009 ACTIVITY	5,986,997.57	2,083,380.95	8,070,378.52	24,724,670.40
Mar 15, 2010	1,565,751.28	451,843.35	2,017,594.63	23,158,919.12
Jun 15, 2010	1,594,365.38	423,229.25	2,017,594.63	21,564,553.74
Sep 15, 2010	1,623,502.41	394,092.22	2,017,594.63	19,941,051.33
Dec 15, 2010	1,653,171.92	364,422.71	2,017,594.63	18,287,879.41
2010 ACTIVITY	6,436,790.99	1,633,587.53	8,070,378.52	18,287,879.41

NRG ENERGY CENTER, INC. (D/B/A MINNEAPOLIS ENERGY CENTER)
7.31% SENIOR SECURED NOTE DUE JUNE 15, 2013
PRINCIPAL AND INTEREST PAYMENT AMORTIZATION SCHEDULE

DATE OF PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	TOTAL PAYMENT	PRINCIPAL BALANCE
Mar 15, 2011	1,683,383.63	334,211.00	2,017,594.63	16,604,495.78
Jun 15, 2011	1,714,147.47	303,447.16	2,017,594.63	14,890,348.31
Sep 15, 2011	1,745,473.51	272,121.12	2,017,594.63	13,144,874.80
Dec 15, 2011	1,777,372.04	240,222.59	2,017,594.63	11,367,502.76
2011 ACTIVITY	6,920,376.65	1,150,001.87	8,070,378.52	11,367,502.76
Mar 15, 2012	1,809,853.52	207,741.11	2,017,594.63	9,557,649.24
Jun 15, 2012	1,842,928.59	174,666.04	2,017,594.63	7,714,720.65
Sep 15, 2012	1,876,608.11	140,986.52	2,017,594.63	5,838,112.54
Dec 15, 2012	1,910,903.12	106,691.51	2,017,594.63	3,927,209.42
2012 ACTIVITY	7,440,293.34	630,085.18	8,070,378.52	3,927,209.42
Mar 15, 2013	1,945,824.88	71,769.75	2,017,594.63	1,981,384.54
Jun 15, 2013	1,981,384.54	36,209.80	2,017,594.34	--
2013 ACTIVITY	3,927,209.42	107,979.55	4,035,188.97	--
LOAN TOTAL	84,000,000.00	75,816,392.15	159,816,392.15	

[NRG LOGO]

January 20, 1997

TO: File

FROM: James Evans

SUBJECT: MINNEAPOLIS ENERGY CENTER DEBT REQUIREMENTS

I. Their are 3 binders

A. Loan Documentation (the actual agreement)

B. Principal and interest payment calculations and the Wire Transfer Confirmations (items used for quarterly payments)

C. Financial Statements (items sent independently of the quarterly payments)

II. Payments

A. Due every March, June, September and December 15th

B. Open file Excel spreadsheet (e.g. l296pay.xls)

C. Update all yellow text

D. Make sure none of the banks have changed

1. This happens occasionally, their should be a letter from the bank stating the change

E. Make sure payment calculation ties to the bond amortization schedule

F. Have thermal accounting manager approve and give Treasury a copy to set up wire transfer

G. A letter used to be sent to the note holders, but Tom G. stopped this process

H. File a copy of the payment calculation and the wire confirmations

III. Financials & Debt Compliance

A. Quarterly unaudited financials include--due 45 days after each quarter (includes 4th quarter which also is reported with audited financials at a later date)

1. Send in triplicate

2. Cover letter signed by an officer of the company (i.e. Val K.)

3. Income statement

4. Balance sheet

a) Items may be shifted between assets and liabilities as compared to internal reporting (e.g. intercompanys)

5. Statement of cash flows

6. Rent limit calculation schedule

7. Income available for debt service schedule

B. Year-end Audited financials are due 120 days after year-end

1. Send in triplicate

2. Cover letter

3. Audit letter for financial audit & audited financials & notes to financial statements from auditors

4. Audit letter for the OCC

5. Schedule of active steam and chilled water contracts

6. The new years financial budget

Exhibit 10.6

INDEX

2/12/88

ENERGY AGREEMENT

This Energy Agreement ("Agreement") is made and entered into this 12th day of February, 1988, by and between NORENCO CORPORATION, a Minnesota corporation ("Seller"); and WALDORF CORPORATION, a Delaware corporation ("Buyer").

WITNESSETH THAT:

WHEREAS, Buyer owns and operates a recycled paperboard mill and folding carton plant located in the City of St. Paul, Minnesota ("Buyer's Facility"); and

WHEREAS, Buyer has requirements for energy to conduct its operation and desires to contract for a long-term, uninterruptible energy source and further desires that the primary source of such energy be in the form of steam; and

WHEREAS, Seller's parent, Northern States Power Company ("NSP") owns

and operates an electric generating facility located in the City of St. Paul, Minnesota (the "High Bridge Plant"), which produces steam; and

WHEREAS, Seller owns a steam line which runs from the High Bridge Plant to Buyer's Facility and has a contract to purchase steam from NSP and, accordingly, is in the position to and desires to provide Buyer with its requirements for energy, as hereinafter described.

NOW, THEREFORE, in consideration of the premises, mutual covenants and agreements herein contained and other good

and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereto hereby agree as follows.

1. DEFINITIONS.

1.1 For purposes of this Agreement, the following terms shall have the following definitions:

1.1.1 "Adjusted Base Price" shall mean the amount to be paid by Buyer to Seller per BTU's of steam energy delivered to Buyer hereunder, at Buyer's Metering Station, from July 1, 1990 until the termination of this Agreement. During such period, the Adjusted Base Price shall be computed as follows: During each Contract Year commencing July 1, 1990 through the life of this Agreement, the Adjusted Base Prices (both the "Standard Adjusted Base Price" and the "Premium Adjusted Base Price") shall be computed for the ensuing Contract Year by using the Base Prices or Adjusted Base Prices for the Contract Year having just ended, and increasing or decreasing such Base Prices or Adjusted Base Prices by a percentage equal to the corresponding percentage increase or decrease, as the case may be, between Seller's Total Costs for each of the two immediately preceding Contract Years; provided, however, that

regardless of any increase or decrease in Seller's Total Cost, the Adjusted Base Price for the Contract Year commencing July 1, 1990 and ending June 30, 1991 shall not be less than $ per MMBTU (herein sometimes referred to as "Standard Adjusted Base Price"); and provided further that, if the average usage during any twelve (12) hour period during the Contract Year commencing July 1, 1990 and ending June 30, 1991 is less than pounds of Useable Steam per hour, the Adjusted Base Price for any such twelve (12) hour period shall be not less than $ per MMBTU (herein sometimes referred to as "Premium Adjusted Base Price").

1.1.2 "Alternate Fuel" shall mean Natural Gas or Fuel Oil.

1.1.3 "Alternate Fuel Price" shall mean:

1.1.3.1 An amount equal to NSP's actual cost of the Alternate Fuel, plus fifteen percent (15%) thereof if:

- Alternate Fuel is supplied because the High Bridge Plant is permanently removed from service or the Supply Line is permanently removed from service as pursuant to Section 9.3.1

or Section 9.3.2.1, but not Section 9.3.2.2,

- during any days when Alternate Fuel is used which, when added to all other days of Alternate Fuel use in the then current Contract Year, do not exceed sixty (60) days in such Contract Year,
- during the Snelling/Marshall Bridge Work,
- during outages caused by Force Majeure, or
- after Buyer has collected the Liquidated Damages as set forth in Section 9.2 or 9.3.

1.1.3.2 Notwithstanding Section 1.1.3.1, if Natural Gas is the Alternate Fuel supplied, and if the Alternate Fuel Price set forth in Section 1.1.3.1 is more or less than NSP can legally charge, (including all local, state or federal taxes, franchise or gross earnings fees or other charges required to be included in or added to the public utility bill pursuant to its tariffs or other requirements)

under any applicable law or regulation, then the Alternate Fuel Price shall be adjusted so as to comply with such law or regulation. Whenever feasible, transportation and/or agency service Natural Gas will be made available if conditions warrant such service and costs of such service would benefit Buyer.

1.1.3.3 For purposes of Section 1.1.3.1, if Fuel Oil is the Alternate Fuel supplied, Seller's actual cost shall include delivery to the tanks on Buyer's premises, including transportation, unloading and heating or pre-heating.

1.1.3.4 Where Alternate Fuel is supplied after the sixtieth (60th) day of Alternate Fuel use in the then current Contract Year, and is not otherwise provided for in 1.1.3.1, the Alternate Fuel Price shall be calculated as follows: For each twelve (12) hours of usage after the sixtieth (60th) day of Alternate Fuel in the then current Contract Year, Buyer's Initial

Efficiency Rate shall be divided by Buyer's Actual Efficiency Rate. The quotient shall be multiplied by the applicable Base Price or the applicable Adjusted Base Price, as the case may be. The product shall be the Alternate Fuel Price for the twelve (12) hours of useage and shall be multiplied by the Net MMBTU's of Steam generated by Buyer to calculate the amount of the payment by Buyer for that twelve (12) hour period to Seller for Alternate Fuel useage. Notwithstanding the foregoing, if the Energy Charge as calculated with the prices established under Sections 1.1.3.1, 1.1.3.2 and 1.1.3.3 would be less than the Energy Charge calculated with the Alternate Fuel Price as described in this subsection, then the Energy Charge shall be calculated with the Alternate Fuel Price as established in Sections 1.1.3.1, 1.1.3.2 and 1.1.3.3.

1.1.3.5 For the purpose of this Agreement, any partial day in which Alternate Fuel is

used shall be deemed to be a full day.

1.1.4 "Annual Maximum" shall mean a quantity of energy equal to 3,500,000 MMBTU's per Contract Year.

1.1.5 "Associated Equipment" shall mean all equipment which constitutes an integral part of the Generating Equipment or the Supply Line, or which is associated with the Generating Equipment or the Supply Line, and which is owned by the Buyer and located at Buyer's Facility.

1.1.6 "Base Price" shall mean:

1.1.6.1 Where the average usage during any twelve (12) hour period is equal to or greater than pounds of Useable Steam per hour, an amount equal to $ per MMBTU for all Useable Steam provided during such twelve (12) hour period, measured at Buyer's

Metering Station (herein sometimes referred to as the "Standard Base Price"); or

1.1.6.2 Where the average useage during any twelve (12) hour period is less than pounds of Useable Steam per hour, an amount equal to $ per MMBTU for all Useable Steam provided

during such twelve (12) hour period, measured at Buyer's Metering Station (herein sometimes referred to as the "Premium Base Price").

1.1.6.3 The twelve (12) hour periods during which average useage is calculated shall be the "a.m." period from 12:00 midnight until 12:00 o'clock noon, and the "p.m." period from 12:00 noon until 12:00 o'clock midnight. Such time intervals may be changed from time to time as Buyer and Seller determine and set forth in a standard operating plan. The Base Price shall not be adjusted during the period from the date hereof through June 30, 1990.

1.1.7 "BTU" shall mean British thermal unit, being the quantity of heat required to raise one pound of water one degree Fahrenheit under standard conditions.

1.1.8 "Buyer" shall mean Waldorf Corporation, a Delaware corporation, which is the owner of Buyer's Facility.

1.1.9 "Buyer's Actual Efficiency Rate" shall be the actual steam generated by the boilers at Buyer's Facility measured in BTU's divided by

the actual Alternate Fuel input to the boilers at Buyer's Facility measured in BTU's to produce this steam for the same time period.

1.1.10 "Buyer's Initial Efficiency Rate" shall mean the percentage of efficiency at which Buyer's boilers and equipment generate steam from Alternate Fuels. Seller will cause a test to be conducted and costs will be shared 50/50 between Buyer and Seller using ASME Test PTC41. Buyer's boilers shall be tested to establish an efficiency rate for both Natural Gas and Fuel Oil operation. Once determined and agreed to by Buyer and Seller, Buyer's Initial Efficiency Rate shall continue in effect throughout the Term of this Agreement.

1.1.11 "Buyer's Facility" shall mean the recycled paperboard mill, folding carton plant, general offices and other facilities

owned by Buyer and located in St. Paul, Minnesota, as the same shall exist from time to time.

1.1.12 "Buyer's Metering Station" shall mean the Metering Station installed by Buyer at a location within Buyer's Facility which will allow measurement of all Useable Steam delivered from Seller and all Useable Steam generated at Buyer's Facility. Buyer's

Metering Station shall be maintained by Buyer. The accuracy of Buyer's Metering Station shall be at least equivalent in quality and performance to that existing at Seller's Metering Station.

1.1.13 "Buyer's Requirements" shall mean the total needs of Buyer for energy at Buyer's Facility, including, but not limited to, energy for processing, space heating, and electrical generating; and Natural Gas for drying processes; provided, however, that "Buyer's Requirements" shall be deemed not to include the purchase of electricity.

1.1.13.1 Buyer has advised Seller of Buyer's contract with the Housing and Redevelopment Authority of the City of St. Paul, Minnesota (hereinafter "HRA") dated December 5, 1985. Buyer and Seller hereby agree that Buyer shall, before it transfers steam to HRA pursuant to the HRA contract, certify in writing to Seller that it has steam generating capacity available at Buyer's Facility sufficient to serve HRA's needs as well as Buyer's needs.

Buyer shall further be obligated to maintain the steam generating capacity at Buyer's Facility with sufficient capacity to serve HRA's needs as well as Buyer's needs and shall renew such written certification on an annual basis. Certifications by Buyer are subject to verification by Seller at Seller's expense. Buyer and Seller further agree that Seller shall have no obligation to supply Useable Steam or Alternate Fuels for HRA's benefit or the benefit of HRA's customers beyond the Term of this Agreement. Buyer hereby undertakes to advise HRA of the conditions of this section. Subject to these conditions precedent, Seller agrees that Buyer's Requirements may include steam for HRA, subject to flows, quantities and conditions of service specified in this Agreement.

1.1.14 "Capital Costs" shall mean all costs incurred in replacing, restoring or improving the Supply Line which are required by law to be

capitalized for tax purposes under the Internal Revenue Code as existing and in effect on the date such costs are incurred, and shall include the costs of the Snelling/Marshall Bridge Work, right-of-way relocations, and other items which are required by law to be capitalized for tax purposes.

1.1.15 "City" shall mean the City of St. Paul, Minnesota.

1.1.16 "Commencement Date" shall mean the first day upon which Useable Steam is transported by Seller to Buyer through the Supply Line and used by Buyer to meet Buyer's Requirements of energy. The Commencement Date shall not occur until (1) the Supply Line has been repaired, restored and thoroughly tested and has been placed in continuous operation meeting specifications under this Agreement at a minimum of pounds per hour for twelve (12) hours immediately preceding the Commencement Date, (2) a standard operating plan consistent with the intent of this Agreement has been prepared, approved and implemented by Buyer and Seller; provided, however, that this requirement for a standard operating plan may be unilaterally waived by

Buyer if the parties are unable to agree on the contents of such standard operating plan, and (3) Seller has given Buyer at least twenty-four (24) hours' advance notice of the Commencement Date, which notice Buyer may waive. In the event the Commencement Date has not occurred by July 1, 1988, subject to delays caused by Force Majeure, this Agreement, at the sole option of Buyer shall commence on a date specified by Buyer to Seller in writing given not less than ten (10) days prior to such Commencement Date, and Seller shall deliver Alternate Fuel to Buyer on the date so designated as the Commencement Date.

1.1.17 "Condensate" shall mean steam condensate return water for the High Bridge Plant. "Acceptable Condensate" returned shall not have been in contact with the Buyer's process and shall not contain minerals in quantities greater than the following:

(1) Dissolved oxygen -- (measured before oxygen scavenger addition): .007 mg/L as oxygen

(2) Iron -- .05 mg/L as iron

(3) Copper -- .020 mg/L as copper

(4) Hardness -- .020 mg/L

(5) Total organic carbon -- 0.3 mg/L as carbon

(6) Conductivity -- 10 micro Mho's

(7) Silica -- 0.2 mg/L as silica

(8) Sodium -- 0.4 mg/L as sodium

As to items (1) through (8), the above-described maximum limits shall not be exceeded for periods of more than eight (8) consecutive hours. The pH factor shall not be less than 7.5 nor greater than 9.2.

1.1.18 "Consumer Price Index" shall mean the Consumer Price Index average for "all items" shown on the "U.S. city average for urban wage earners and clerical workers (including single workers), all items, groups, subgroups and special groups of items" as promulgated by the Bureau of Labor Statistics of the U.S. Department of Labor, using the year 1967 as a base of 100. In the event that the Consumer Price Index hereinabove referred to ceases to incorporate a significant number of the relevant items now incorporated in the Consumer Price Index, or if a substantial change is made in the method of establishing the Consumer Price Index, then the Consumer Price Index shall be adjusted to the figure which would

have resulted had no change occurred in the manner of computing the Consumer Price Index. In the event that the Consumer Price Index (or a successor or substitute index) is not available, a reliable governmental or other non-partisan publication evaluating the information theretofore used in determining the Consumer Price Index shall be used in lieu of the Consumer Price Index.

1.1.19 "Contract Year" shall mean a period of twelve (12) months beginning on July 1 and ending on June 30; provided, however, the first Contract Year shall begin on the Commencement Date and run through June 30, 1989.

1.1.20 "CPI Adjustment" shall mean the product arrived at by multiplying the amount in effect of the item being adjusted on June 30 of the immediately preceding Contract Year by the percentage by which the Consumer Price Index for the month of June during the immediately preceding Contract Year exceeds or is less than the Consumer Price Index for the month of June in the Contract Year prior to the immediately preceding

Contract Year. The first CPI Adjustment under this Agreement shall occur on July 1, 1990.

1.1.21 "Down Time" shall mean any and all periods of time during which Buyer is unable to operate its paper machine or machines at normal operating speeds by reason of an Interruption in the supply of Useable Steam with less than twelve (12) hours' notice, or by reason of Seller's failure to supply Alternate Fuels; provided, however, that Interruptions caused by Force Majeure shall not be included within "Down Time."

1.1.22 "Down Time Charge" shall mean an amount equal to the product of the Down Time Price multiplied by the number of hours of Down Time per paper machine affected whenever Seller has not provided Buyer with at least twelve (12) hours' advance oral notice of Down Time with written confirmation thereof within two (2) business days thereafter; provided, however, in no event shall the total Down Time Charge for any single Interruption exceed as adjusted annually, commencing July 1, 1990, by the CPI Adjustment. For the purpose of computing the Down Time Charge Buyer shall notify Seller in writing within two (2) business days of the Down Time duration and the number of machines affected. Any partial hour,

other than the first hour, equal to or greater than thirty-one (31) minutes shall be deemed to be a full hour. Any partial hour that is the first hour of Down Time shall be deemed to be a full hour. At the time of execution of this Agreement, Buyer's Facility contained four (4) operable paper machines.

1.1.23 "Down Time Price" shall mean the amount of $ as adjusted annually, commencing July 1, 1990, by the CPI Adjustment.

1.1.24 "Energy Charge" shall mean the amount to be paid by Buyer to Seller hereunder for the products (including Useable Steam, Natural Gas, and Fuel Oil) furnished by Seller to Buyer under the terms of this Agreement, which Energy Charge shall be measured at Buyer's Metering Station, and which, for any given month, shall, for all Useable Steam, be equal to the product of the applicable Base Price or applicable Adjusted Base Price multiplied by the Net MMBTU's of Useable Steam delivered by Seller to Buyer during such month, and shall, for all Alternate Fuel, be equal (1) to the product of the applicable Alternate Fuel Price multiplied by the quantity of

Alternate Fuel delivered by Seller to Buyer during such month, if the

conditions specified in Section 1.1.3.1 exist or (2) to the amount as calculated under Section 1.1.3.4.

1.1.25 "Force Majeure" shall mean acts of God, war, civil commotion, fire, explosions, the elements or other casualty, labor strikes or disputes, action or orders of governmental agencies or institutions or the courts, or other causes beyond the reasonable control of the parties hereto which preclude or materially impair the operation of the Generating Equipment, the High Bridge Plant, the Supply Line or the boilers at Buyer's Facility, or shut down or materially impair the sources or means of energy supply, or preclude or materially impair Buyer from accepting delivery of energy; provided, however, that energy price considerations shall not be deemed to be a Force Majeure; and provided further that failure to timely contract for any energy supply shall not be deemed to be a Force Majeure; and provided further that overload or excess demand not caused by any of the foregoing (including demand caused by extremes in temperature or prolonged periods of high or low temperatures) shall not be deemed to be a Force Majeure; and

provided further, that if any Force Majeure conditions relating to the Supply Line can be corrected by the expenditure of funds (net of Buyer's contribution under Section 8.5.2 and any insurance proceeds received by Seller) which, for each occurrence, are less than $ or of the amount of the Liquidated Damages set forth in Section 9.5 for that same Contract Year, whichever amount is greater, and if Seller elects not to expend the funds necessary to cure such Force Majeure conditions in a timely manner, then such conditions shall not be deemed to be a Force Majeure.

1.1.26 "Fuel Oil" shall mean No. 6 low sulphur (less than 1-1/2%) petroleum based fuel oil, which oil shall at all times have the characteristics and specifications with the following:

(1)	Gravity, (degrees) API -3 min,	+15 max
(2)	Viscosity, SUS at 100(degrees)F	8,000 max
(3)	Sulfur, Wt. %	1.5% max
(4)	BTU/gallon	150,000 min
(5)	Sediment, Wt. %	1% max

(6) BS & W Total, Vol. % ..... 2% max

(7) Flash Point ..... 190(degrees)F max

140(degrees)F min

(8) Vanadium ..... 55 ppm max

and shall at all times equal or exceed the minimum specifications established from time to time by any governmental agency or unit. Provided, however, if the Buyer and Seller shall, subsequent to the execution of this Agreement, agree in writing that No. 2 fuel oil can and shall be a useable Alternate Fuel, then such Agreement shall be deemed to be part of this Agreement and "Fuel Oil" shall then mean the lowest cost petroleum based fuel oil commercially available in the Twin City Greater Metropolitan Area which satisfies the current standard operating plan and which oil shall at all times have characteristics and specifications within the following guidelines:

(1) Gravity, (degrees) API -3 min, +35 max

(2) Viscosity, SUS at 100(degrees)F 8,000 max

(3) Sulfur, Wt. % ..... 1.5% max

(4) BTU/gallon ..... 125,000 min

(5) Sediment, Wt. % ..... 1% max

(6) BS & W Total, Vol. % ..... 2% max

(7) Flash Point ..... 190(degrees)F max

140(degrees)F min

(8) Vanadium ..... 55 ppm max

and shall at all times equal or exceed the

minimum specifications established from time to time by any governmental agency or unit. Buyer shall not unreasonably withhold agreement on use of No. 2 fuel oil.

1.1.27 "Generating Equipment" shall mean all boilers, pipes, valves, meters, controls, coal handling and storage systems, buildings, yards, tracks, pollution control systems and all

other equipment and machinery located at the High Bridge Plant necessary to produce Useable Steam in the quantity required by this Agreement.

1.1.28 "High Bridge" or "High Bridge Plant" shall mean the facility commonly known as the High Bridge Plant, now owned by NSP and located in St. Paul, Minnesota, which is used by NSP to produce steam for purposes of generating and supplying electricity to its customers, and which has steam capacity sufficient to provide Buyer with Buyer's Requirements of Useable Steam as described in this Agreement.

1.1.29 "High Bridge Life Extension Outage" shall mean a voluntary, once-during-the-Term-hereof shutdown of fewer than one hundred eighty-one (181) days of the High Bridge Plant for the purpose of repairing, improving and modernizing High Bridge, so as to extend its operable life.

The High Bridge Life Extension Outage shall not exceed one hundred eighty (180) days in duration. Buyer, with written consent of the Seller, shall have the right to supply its own energy sources during any portion or all of the period of a Useable Steam outage to accomplish this work. Such consent shall not be unreasonably withheld. In the event such consent is given, then the MMBTU's of steam gene rated by the energy provided by Buyer for its own use shall be counted as part of the requirement of MMBTU's for the Contract Year as set forth in Section 4.1.2.

1.1.30 "Interruption" shall mean, with respect to Useable Steam, a reduction in the flow of Useable Steam to Buyer's Facility to a level which is insufficient to satisfy Buyer's Requirements, and with respect to Natural Gas and Fuel Oil, a rate of flow or delivery of such energy sources which is insufficient to satisfy Buyer's Requirements. Provided, however, that it shall not be deemed to be an Interruption if Buyer's Requirements are in excess of pounds of Useable Steam per hour and Seller is unable to deliver more than pounds of Useable Steam per hour, or if

Seller is unable to deliver Alternate Fuels in sufficient quantities to permit Buyer to produce Useable Steam at a rate greater than pounds per hour.

1.1.31 "License Renewal Fees" shall mean those fees required to be paid to Chicago, Milwaukee, St. Paul and Pacific Railroad Company and to Chicago and Northwestern Transportation Company, their successors and assigns, to maintain, renew or

extend the rights, privileges and licenses granted under:

(1) that certain License Agreement dated November 22, 1982, by and between Richard B. Ogilvie, as Trustee of the property of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company and NSP, as amended March 29, 1983, and further amended October 24, 1984;

(2) that certain License Agreement dated April 14, 1983, by and between Chicago and Northwestern Transportation Company and NORENCO; and

(3) that certain License Agreement dated November 18, 1983, by and between Chicago and Northwestern Transportation Company and NORENCO;

and any other fees excluding Ordinance Fees to the City which may hereafter be required to be paid to any party for the right, privilege or license to use the right-of-way on, under and over which the Supply Line is now or hereafter located.

1.1.32 "Line Maintenance Costs" shall mean all costs incurred to third parties (including NSP) for labor and materials used in maintaining the Supply Line, which costs may be expensed rather than capitalized for tax purposes.

1.1.33 "MCF" shall mean 1,000 cubic feet of Natural Gas as defined in the tariff of the gas utility providing Natural Gas service.

1.1.34 "Metering Station" shall mean the sampling, measuring and recording devices used to analyze steam and condensate data, and, in connection with Buyer's Metering Station, the sampling, measuring and recording devices used to analyze steam, Condensate, oil and gas data, all of which devices, on the last day of each calendar quarter during the Term of this Agreement, shall be calibrated and certified to be accurate within plus or minus one percent (1%) of the manufacturer's standards by Seller at Seller's Metering Station and by Buyer at

Buyer's Metering Station. Reports, so certified, shall be furnished by Buyer to Seller, and by Seller to Buyer, within thirty (30) days after completion of such measurement.

1.1.35 "MMBTU" shall mean one million BTU's.

1.1.36 "Net MMBTU's of Steam" shall mean the total of the BTU content per pound of all Useable Steam produced and delivered by Seller to Buyer during a month (measured at Buyer's

Metering Station) times the number of pounds of steam, reduced by the BTU content per pound of all Acceptable Condensate delivered by Buyer to Seller during such month times the number of Acceptable Condensate pounds (measured at Seller's Metering Station), divided by one million, or in any month Buyer produces steam at its own Facility, the BTU content per pound of all steam generated at Buyer's Facility (measured at Buyer's Metering Station) times the number of pounds of steam reduced by the BTU content per pound of all Acceptable Condensate delivered by Buyer to boilers in Buyer's Facility during such month times the number of Acceptable Condensate pounds (measured at Buyer's Metering Station) divided by one million. If, in any given month, Seller

delivers Useable Steam and Buyer also generates steam, the two amounts shall be totalled.

1.1.37 "NORENCO" shall mean NORENCO Corporation, a corporation organized under the laws of the State of Minnesota, which is a wholly-owned subsidiary of NSP and the owner and operator of the Supply Line.

1.1.38 "NSP" shall mean Northern States Power Company, a corporation organized under the laws of the State of Minnesota, which is the owner/operator of the High Bridge Plant, the supplier of the Natural Gas and Fuel Oil and the parent corporation of NORENCO.

1.1.39 "Natural Gas" shall mean the natural gas purchased from time to time for delivery by Seller to Buyer as an energy source, which gas shall at all times meet the commercial standards otherwise required of a regulated utility.

1.1.40 "Ordinance Fee" shall mean the fee required to be paid pursuant to Section 2(n) of the City Council Resolution No. 280088 adopted by the City Council of the City on April 14, 1983, or any amendments thereto which may hereafter be adopted.

1.1.41 "Reference Rate" shall mean the rate of

interest from time to time publicly announced by First Bank Minneapolis as its reference rate.

1.1.42 "Seller" shall mean NORENCO.

1.1.43 "Seller's Energy Sources" shall mean Useable Steam, Natural

Gas or Fuel Oil, supplied or caused to be supplied by Seller.

1.1.44 "Seller's Metering Station" shall mean the Metering Station installed and maintained by Seller at a location in the High Bridge Plant which will allow measurement of all condensate delivered from Buyer to Seller.

1.1.45 "Seller's Total Costs" shall mean total incremental costs incurred by Seller pursuant to and accounted for under Article IV and Table 1 of that certain NSP/NORENCO Amended Agreement dated May 18, 1983, and filed May 19, 1983 with the Public Utilities Commission. Any modification or amendment to said NSP/NORENCO Amended Agreement made subsequent hereto shall not affect the definition of "Seller's Total Costs," unless such modification or amendment is initiated and required or ordered by the Public Utilities Commission and is not in response to a request initiated by NSP or Seller wherein Buyer would be adversely

affected by increased costs resulting from such modification or amendment; and Seller agrees to resist in good faith any such orders. Buyer reserves the right to participate in proceedings before the Public Utilities Commission to protect its own interests.

1.1.46 "Snelling/Marshall Bridge Work" shall mean all work required to be performed to the Supply Line by or under the direction of Seller, because of the reconstruction of the intersection of Snelling and Marshall avenues and the underpass associated therewith. Buyer, with the written consent of Seller, shall have the right to supply its own energy sources during any portion or all of the period of the Snelling/Marshall Bridge Work. Such consent shall not be unreasonably withheld. In the event such consent is given, then the MMBTU's of steam generated by the energy provided by Buyer for its own use shall be counted as part of the requirement of MMBTU's for the Contract Year as set forth in Section 4.1.2.

1.1.47 "Supply Line" shall mean the transmission system, including all pipes, pumps, valves, meters, controls, wires, insulation and other equipment necessary to:

(1) Transport Useable Steam from the Generating Equipment at the High Bridge Plant to Buyer's Metering Station;

(2) Transport Condensate in the quantity required by this Agreement from Buyer's Facility to Seller's Metering Station; and

(3) Provide for control of steam and communications between the High Bridge Plant and Buyer's Facility.

1.1.48 "Term" shall mean the period of time beginning on the

Commencement Date and continuing through June 30, 2001, unless this Agreement is sooner terminated as hereinafter provided.

1.1.49 "Useable Steam" shall mean the product produced by the Generating Equipment at the High Bridge Plant and delivered to Buyer's Facility in the form of superheated steam having the following characteristics and specifications at Buyer's Facility when taken by Buyer at a flow of not less than pounds per hour, nor more than pounds per hour:

(1) Temperature -- not less than 700 degrees Fahrenheit, nor more than 760 degrees Fahrenheit;

(2) Pressure -- not less than pounds per

square inch, nor more than pounds per square inch;

(3) If Buyer takes less than pounds per hour, Useable Steam shall mean the product produced by the High Bridge Plant and delivered to Buyer's Facility in an "as is" condition.

2. CONSTRUCTION; OWNERSHIP; OPERATION.

2.1 Seller, at its cost, shall make or cause NSP to make all modifications, adjustments and additions to the Generating Equipment and Supply Line which are necessary to produce Useable Steam and transport it in the quantity and quality required by this Agreement, including all modifications, adjustments and repairs to the Generating Equipment and the Supply Line which are or may be caused by the inactive state of the Supply Line.

2.2 Subject to the provisions of Sections 8.2, 8.4, and 8.6, throughout the Term of this Agreement, Seller shall obtain, renew and maintain all franchises, licenses, permits, rights-of-way, easements, and other private or governmental authorizations necessary to furnish steam through the Supply Line. Seller shall contest, within reasonable limits, rules, regulations, laws or ordinances which would impair or prevent Seller from furnishing steam hereunder in the quantities and quality required hereby.

2.3 Throughout the Term of this Agreement, Seller

shall own, operate, maintain, repair and adjust the Supply Line, and shall cause NSP to maintain, adjust and repair the Generating Equipment. Buyer shall own, maintain and repair all Associated Equipment. Seller shall have the right

to enter Buyer's Facility for the purpose of maintaining and repairing the Supply Line, and to the extent Buyer does not adequately and timely maintain the Associated Equipment, enter Buyer's Facility for the purpose of maintaining and repairing the Associated Equipment including all modifications, adjustments, replacements and additions which have heretofore or may hereafter be made to Buyer's Facility and shall be reimbursed by Buyer for such maintenance repair, modification, adjustment, replacement and additions.

2.4 Buyer shall not, by reason of this Agreement or the termination of this Agreement or the payments made pursuant to this Agreement, acquire title or ownership in or to the Generating Equipment or the Supply Line, and Seller shall not acquire title or ownership in or to the Associated Equipment.

2.5 Any portion of the Supply Line (except the Associated Equipment) heretofore or hereafter placed at Buyer's Facility by Seller for the purpose of furnishing steam hereunder shall be and remain the property of Seller, and Buyer shall exercise reasonable care to protect the Supply Line from loss or damage.

3. TERM.

3.1 This Agreement shall commence on the Commencement Date and shall continue through June 30, 2001, unless sooner terminated, as hereinafter provided.

4. QUANTITY.

4.1 Seller shall produce and deliver to Buyer, and Buyer shall purchase and accept from Seller all of Buyer's Requirements for energy during the Term hereof; provided, however

4.1.1 Seller shall not be required to produce and deliver more than the Annual Maximum in any Contract Year;

4.1.2 There shall be no mandatory minimum quantity of energy to be produced and delivered or purchased and accepted under this Agreement each Contract Year; provided, however, that Seller shall have the right to terminate this Agreement by written notice to Buyer if Buyer purchases and accepts, in the aggregate, less than MMBTU's of energy during any given Contract Year. If Seller elects to terminate this Agreement pursuant to this Section 4.1.2, Seller shall do so by serving written notice of its election to terminate on Buyer within sixty (60) days after the expiration of the Contract Year. The effective date of the termination shall be the last day

of the tenth (10th) full calendar month after service of notice of termination, or such earlier date as Buyer shall determine and notify Seller pursuant to thirty (30) days' advance written notice to Seller.

4.1.3 Notwithstanding the provisions of Section 4.1.2, Seller shall not be entitled to terminate this Agreement if Buyer, having failed to purchase and accept MMBTU's of energy in any given Contract Year, nevertheless pays to Seller an amount equal to the Energy Charge for the difference between the amount of energy actually purchased and accepted and MMBTU's. Such payment shall be made within thirty (30) days after receipt of Seller's notice of termination, and upon payment, such notice shall be null and void and all right to terminate shall cease. For the purpose of calculating the Energy Charge for any unused steam pursuant to this Section 4.1.3, the Standard Base Price (or Standard Adjusted Base Price, as the case may be), shall be used.

4.1.4 For purposes of this paragraph 4.1 only, for calculating the number of MMBTU's purchased and accepted by Buyer in any given Contract Year,

Buyer shall be given credit for all Down Time, and for all such Down Time, the flow of Useable Steam shall be deemed to have been at pounds per hour, Buyer shall also be given credit for Interruptions and all other periods where Buyer has provided its own fuel as allowed in this Agreement.

4.1.5 Except as provided in Section 4.1.2 and Section 9.11, this Agreement is not terminable by Seller, and the delivery of energy sources (either in the form of Useable Steam or Alternate Fuels) shall be noninterruptible for the full Term hereof.

4.1.6 The Annual Maximum quantity of energy required to be produced, delivered and purchased hereunder and the minimum quantity set forth in Section 4.1.2 permitting Seller to terminate shall be apportioned for any partial Contract Year.

4.1.7 In the event Buyer requires and uses less than pounds of Useable Steam per hour, Buyer shall accept such steam in its "as is" condition and without warranty as to temperature or pressure. Buyer understands that if Useable Steam is delivered at less than pounds per hour, the risk of damage to

Buyer's machinery and equipment is increased, and Buyer hereby agrees to assume all such risk when, as a result of Buyer's requirement and use, the flow of steam drops below pounds per hour. If, as a result of Buyer's requirement and use, the flow of steam in the Supply Line drops below pounds per hour, the Supply Line shall be shut down, and an Alternate Fuel shall be used. Such a shut down of the Supply Line shall not be deemed to be an Interruption, nor shall it be counted as part of the sixty (60) days of Alternate Fuel Use set forth in Section 4.1.9 but will be priced according to the Alternate Fuel price specified in Section 1.1.3.1.

4.1.8 Seller and Buyer shall use their best efforts to coordinate inspections, maintenance and repairs to their respective facilities.

4.1.9 Of Seller's Energy Sources, the primary energy source to be delivered to Buyer hereunder shall be Useable Steam, and Seller shall use all reasonable efforts to deliver Useable Steam. In the event that Seller is unable to provide Useable Steam to Buyer, and Seller provides at least twelve (12) hours' advance notice to Buyer of such event, Seller shall be permitted

to satisfy its obligation to satisfy Buyer's Requirements by causing NSP to deliver Natural Gas to Buyer. In the event that Seller is unable to provide Useable Steam or Natural Gas to Buyer, Seller shall be permitted to satisfy Buyer's Requirements by delivering Fuel Oil to Buyer. Notwithstanding the foregoing, Seller shall be in default under the terms of this Agreement if Interruptions to the flow of Useable Steam exist on all or part of more than sixty (60) days (in the aggregate) during any Contract Year for any reasons other than (1) Force Majeure, (2) High Bridge Life Extension Outage, (3) Snelling/Marshall Bridge Work, or (4) Seller does not provide Alternate Fuel at Useable Steam pricing then in effect.

4.1.10 In the event that an Interruption occurs, Buyer shall have the unrestricted right to supply its own energy sources during the period such condition continues. During such periods of Interruption, and all other periods when Buyer provides its own energy sources, such MMBTU's of steam generated shall be included as part of the MMBTU per Contract Year requirement set forth under Section 4.1.2.

4.1.11 In any event in which it is foreseeable that

the flow of Useable Steam will be interrupted for a period of time exceeding fourteen (14) days, Buyer may request consent to supply its own Alternate Fuel. Seller shall not unreasonably withhold consent, provided, however, that Seller's withholding of consent shall not be deemed unreasonable if Seller has already incurred commitments for the supply of Alternate Fuels for the relevant period.

4.1.12 Prior to the commencement of the first Contract Year, and quarterly thereafter, Buyer shall provide Seller with an estimate of Buyer's Requirements for the next twelve (12) calendar months; provided, however, that each of such estimates is intended to serve only as an aid to planning, and shall not constitute or create any obligation on the part of Buyer to purchase energy hereunder in the amounts predicted.

5. CONDENSATE RETURN.

5.1 During each Contract Year of the Term, Buyer shall deliver to Seller all of Buyer's Condensate for use in producing Buyer's steam at the High Bridge Plant. (Seller shall, however, provide the water to initiate steam production.)

5.2 Should the quality of Condensate returned fail to meet the specifications herein set forth for Acceptable Condensate due to contamination caused by Buyer, and Seller

records and maintains records of such contamination, such Condensate may be dumped and service may be curtailed after on-site make up storage volumes are depleted. Seller will use its best efforts to provide additional make-up to the extent possible from NSP's equipment to mitigate curtailment of steam delivery. Any curtailment which shall occur beyond such best efforts by Seller shall not be deemed an Interruption or Down Time. Buyer will be billed for the reasonable documented costs of disposing of and replacing such Condensate, which costs Buyer agrees to pay. Buyer will not receive credit for the difference in BTU's between the dumped Condensate and the make-up.

6. METERING.

6.1 Metering of Seller's Useable Steam and Condensate will be maintained at Seller's Metering Station at the expense of Seller; and will, to the extent not now existing for Useable Steam, Condensate and Alternate Fuels, be installed and maintained at Buyer's Metering Station at the expense of the Buyer. Such meters and metering equipment shall be at least equivalent in quality and performance to those existing at the Seller's Metering Station and will consist of temperature and pressure recording instruments and steam flow meters in the Supply Line, temperature compensated flow meters and a temperature recording instrument in the Condensate return line, flow meters which measure MCF's of gas and flow meters which measure gallons of oil to

provide the basis for determination of the amount of energy delivered to Buyer. To the extent not now

existing, conductivity and pH monitoring and sampling devices will be installed at the expense of Buyer and maintained by Seller in the Condensate return line to monitor the characteristics of Condensate. All meters, instruments, and related equipment installed by Buyer shall be approved by Seller as to design and propriety of installation and shall be available for inspection as provided in Section 6.2.

6.2 Meters and all meter readings and/or charges shall be accessible at all reasonable times to inspection and examination by Buyer and Seller and each such meter (other than oil meters) shall be calibrated at least once each ninety (90) days by and at the expense of the owner of such, who shall give the other party notice of such calibration test in sufficient time to enable such other party, if it so chooses, to have its representative present. In the event any test shows meter error in excess of plus or minus one percent (1%), Seller shall make an adjustment of the bills for service during the period of inaccuracy if determinable, otherwise for one-half of the period between the date of discovery of the meter error and the preceding meter calibration test. The expenses of any unscheduled meter test requested by the nonowner will be borne by the nonowner unless such a test shows the meter to be in error by more than plus or minus one percent (1%). Oil meters shall be maintained by Buyer, at Buyer's expense.

6.3 For billing purposes, recordings at Buyer's Metering Station will govern for all measurements except

Acceptable Condensate from Useable Steam; recordings at Seller's Metering Station will govern for Acceptable Condensate from Useable Steam. Redundant meterings will be used as backup and for quality control for primary metering. In the event that meter tickets from delivery by truck or rail differ from Buyer's metered results, meter tickets shall govern.

7. BILLING.

7.1 Seller shall submit a bill following the end of each month of the Term which shall include:

(1) The number of MMBTU's of Useable Steam delivered and the number of MMBTU's of steam generated at Buyer's Facility with Alternate Fuels and Condensate returned during the preceding month;

(2) the Net MMBTU's of Steam received by Buyer during the preceding month;

(3) the amount of the applicable Base Price or the applicable Adjusted Base Price;

(4) the nature, amount and price of any Alternate Fuel delivered by Seller during the preceding month;

(5) the Energy Charge;

(6) Interruptions and Down Time (number, length, and consequence);

(7) the amount of the Ordinance Fee; and

(8) other charges as applicable.

7.2 Buyer shall pay Seller within thirty (30) days

following receipt of each monthly bill the amount billed and computed pursuant to this Agreement.

7.3 Within thirty (30) days after the end of each Contract Year, Seller shall submit an annual statement to Buyer which shall include the total average annual cost of each of Seller's Energy Sources delivered by Seller during the preceding Contract Year.

7.4 Any monthly bill or statement presented by Seller to Buyer which is past due as specified herein shall accrue interest from the due date at a rate per annum equal to one percent (1%) in excess of the Reference Rate, until such past due amount is paid by Buyer. This late payment charge shall not constitute a waiver of any remedy Seller may otherwise pursue in the event of default.

7.5 It is the obligation of Seller to prepare accurate monthly bills and annual statements. It is the obligation of both parties to review such bills and statements and raise any questions or point out any mistakes promptly. No bill or statement may be adjusted to correct errors or mistakes in measurements, computations or otherwise unless either party objects to such bill or statement within six (6) months after it is received by Buyer.

7.6 All payments required to be made by Buyer to Seller pursuant to this Agreement shall be made by wire transfer to Seller's designated account at the First Bank Minneapolis.

8 COSTS AND CHARGES.

8.1 For each month of the Term, Buyer shall be obligated to pay Seller an Energy Charge, based upon the bills received from Seller according to Section 7.1 above, and Buyer shall pay such other amounts as are otherwise required pursuant to this Article 8.

8.2 Buyer shall pay or reimburse Seller for its payment of the

Ordinance Fee related to Useable Steam. Seller shall bear and pay any and all ad valorem property taxes and assessments levied on the construction or ownership of the Supply Line and any and all franchise fees associated with the delivery of Useable Steam hereunder and shall cause NSP to pay such taxes and assessments levied on the Generating Equipment, without reimbursement from Buyer.

8.3 Buyer shall reimburse Seller for times the documented Line Maintenance Costs incurred by Seller, up to a maximum amount which shall not exceed the sum of $ per Contract Year as adjusted annually, commencing July 1, 1990 by the CPI Adjustment.

8.4 Seller shall obtain the extensions of the License Agreements referred to in Section 1.1.31 hereof. Buyer shall pay to Seller an amount equal to ninety percent (90%) of all License Renewal Fees hereafter paid by Seller during the Term; provided, however, that (1) such payment by Buyer hereunder shall not exceed the aggregate maximum amount of $; (2) Seller shall pay the balance of License Renewal Fees, if any, in excess

of said aggregate maximum amount; and (3) Seller shall confer with and Buyer shall provide its best efforts to assist Seller in achieving the lowest License Renewal Fees acceptable to Buyer and Seller.

8.5 Capital Costs shall be paid as follows:

8.5.1 Seller shall pay, without contribution or reimbursement by Buyer, all Capital Costs exclusive of normal maintenance incurred during the Term hereof which are necessary to insure an efficient utilization of the Supply Line through June 30, 2001 and which are not the result of Force Majeure or are not related to the performance of the Snelling/Marshall Bridge Work.

8.5.2 In the event Capital Costs are incurred because of a Force Majeure affecting the Supply Line (but not the High Bridge Plant or the Generating Equipment), or because of the Snelling/Marshall Bridge Work, Buyer shall pay to Seller an amount equal to ninety percent (90%) of such Capital Costs; provided, however, that (1) such payment by Buyer hereunder shall not exceed the aggregate maximum sum of $ for the Snelling/Marshall Bridge Work or $ for any other single occurrence or project; (2) Seller shall pay the

balance of all Capital Costs, (3) all Capital Costs so expended are reasonable and necessary; and (4) except in the case of an emergency, Seller shall give Buyer an estimate of the anticipated amount of such Capital Costs prior to

commencement of the work. Buyer shall make progress payments which shall be included with the monthly energy bill as each one-fourth (1/4) of each project is completed.

8.5.3 In the event that the License Renewal Fees hereafter paid during the Term total less than the aggregate amount of $ Buyer shall receive a credit reducing the aggregate maximum amount for the Snelling/Marshall Bridge Work established in Section 8.5.2 by an amount equal to the difference between $ and the License Renewal Fees paid; provided, however, such credit shall not exceed $. Accordingly, the aggregate maximum amount for the Snelling/Marshall Bridge Work established in Section 8.5.2 may not be reduced to a total lower than $.

8.5.4 It is anticipated that the Snelling/Marshall Bridge Work will be a lengthy construction project and that the Supply Line will be shut down an extended period of time during such

construction thereby requiring the parties to use Alternate Fuel. It is possible, however, to construct the project in such a manner so as to cause the Supply Line to be shut down fewer than fifteen (15) days (herein called the "Immediate Resumption Procedure"), but such Immediate Resumption Procedure is anticipated to be substantially more expensive than the normal construction procedure contemplated in Section 8.5.2 (the "Normal Construction Procedure"). If Buyer, at Buyer's sole election, authorizes Seller to implement the Immediate Resumption Procedure, Buyer shall pay to Seller an amount equal to ninety percent (90%) of the Capital Costs of performing the Snelling/Marshall Bridge Work utilizing the Immediate Resumption Procedure and all of the conditions of Section 8.5.2 shall apply, except that Buyer's aggregate maximum cost shall be $ rather than $. If Buyer fails to notify Seller in a timely manner of Buyer's election to implement the Immediate Resumption Procedure, Buyer shall be deemed to have elected the Normal Construction Procedure.

8.5.5 The aggregate maximum amounts of $ and/or $ and/or $ to be paid

by Buyer under this Section 8.5 shall be adjusted annually commencing July 1, 1990, by the CPI Adjustment.

8.5.6 Seller shall pay, or cause NSP to pay, all Capital Costs of whatever nature relating to the High Bridge Plant and the Generating Equipment.

8.6 Except as expressly set forth in this Article 8 to the contrary, the parties shall each bear their respective responsibility for all current and future taxes pursuant to applicable statutes and ordinances. Buyer shall pay applicable sales tax.

8.7 Failure by either party to pay its respective costs and charges set forth in this Article 8 shall constitute an event of default and shall give rise to the remedies set forth in Article 9 hereof, including, without limiting, the payment by Seller of the Liquidated Damages.

9. DEFAULT; REMEDIES; LIQUIDATED DAMAGES.

9.1 Buyer and Seller agree that this Agreement represents a mutual, long-term commitment. Seller acknowledges that if either the High Bridge Plant or the Supply Line is permanently removed from service, Buyer is likely to sustain an economic loss which will be difficult to quantify even if Seller provides Alternate Fuels for the remaining Term of the Agreement. Buyer acknowledges that future contingencies or policies might reasonably cause NSP to shut down or mothball the High Bridge

Plant or cause Seller to shut down and remove from service the Supply Line, and Buyer acknowledges that NSP or Seller may make such decisions, so long as Buyer receives reasonable compensation for the loss it expects to Sustain as a result. Both Buyer and Seller have an interest in certainty and in avoiding disputes about quantification of contingent, future damages or losses that are likely to occur but are difficult to quantify. In order to promote certainty and avoid future disputes, Buyer and Seller have mutually agreed upon Sections 9.2 and 9.3 which define Conditions under which Liquidated Damages shall be paid, and Buyer and Seller have mutually agreed upon the Schedule of Liquidated Damages specified in Section 9.5.

9.2 If the High Bridge Plant is permanently removed from service, Buyer shall have the right either to terminate this Agreement or to affirm and enforce this Agreement and, if necessary, to maintain a Suit for specific performance. In either case, Buyer shall have the right to collect the Liquidated Damages set forth in Section 9.5. In the event Buyer elects to affirm and enforce this Agreement after the permanent removal from service of the High Bridge Plant, Seller shall provide Alternate Fuels with the billings under Section 7.1 to be governed by Sections 1.1.3.1, 1.1.3.2, and 1.1.3.3, and Seller shall have no further Obligation to Supply Useable Steam to Buyer.

9.3 Removal of the Supply Line from service for non-Force Majeure conditions shall be treated in the following

manner:

9.3.1 If Seller could continue operation of the Supply Line only with the expenditure of an amount in excess of the maximum aggregate sum of five million dollars ($5,000,000) cumulative over the Term of this Agreement, exclusive of Line Maintenance Costs and if Seller elects to remove permanently

the Supply Line from service in order to avoid such an expenditure, Buyer shall have the right either to terminate this Agreement to affirm and enforce this Agreement and, if necessary, to maintain a suit for specific performance. In either case, Buyer shall have the right to collect the Liquidated Damages set forth in Section 9.5. In the event Buyer elects to affirm and enforce this Agreement after the permanent removal of the Supply Line pursuant to this Section 9.3.1, Seller shall provide Alternate Fuels with the billings under Section 7.1 to be governed by Sections 1.1.3.1, 1.1.3.2 and 1.1.3.3. Seller shall have no further obligation to supply Useable Steam to Buyer.

9.3.2 In the event that Seller elects to remove permanently the Supply Line from service for any reason other than to avoid an expenditure

of an amount in excess of the maximum aggregate sum of five million dollars ($5,000,000) cumulative over the Term of this Agreement, exclusive of Line Maintenance Costs, Buyer shall have the right either to terminate this Agreement or to affirm and enforce this Agreement and, if necessary, to maintain a suit for specific performance. In either case, Buyer shall have the right, but not the obligation, to collect the Liquidated Damages set forth in Section 9.5.

9.3.2.1 In a situation governed by Section 9.3.2, if Buyer elects to affirm and enforce this Agreement and to collect the Liquidated Damages after the permanent removal from service of the Supply Line, Seller shall provide Alternate Fuels with the billings under Section 7.1 to be governed by Sections 1.1.3.1, 1.1.3.2 and 1.1.3.3. Seller shall have no further obligation to supply Useable Steam to Buyer.

9.3.2.2 In a situation governed by Section 9.3.2, if Buyer elects to affirm and enforce this Agreement after the

permanent removal from service of the Supply Line, and if Buyer elects to waive the Liquidated Damages, Seller's obligation hereunder shall be limited to the obligation to provide Alternate Fuels with the billings under Section 7.1 to be governed by Section 1.1.3.4 for the remaining Term hereof. If Buyer elects to waive the Liquidated Damages, there shall be no further liability on the part of Seller for Liquidated Damages for any future conditions under any section of this Agreement, and Seller shall have no further obligation to supply Useable Steam to Buyer.

9.4 If the conditions described in Sections 9.2 or 9.3 result from Force Majeure, neither Seller nor NSP shall be deemed to be in default hereunder or under the Guaranty, and Buyer shall have no right to terminate the Agreement, sue for specific performance or collect the Liquidated Damages.

9.5 Upon the occurrence of any one of the conditions giving rise

to the payment of the Liquidated Damages, as specified in Sections 9.2 or 9.3, unless excused as specified in Section 9.4, the amount of Liquidated Damages to be paid shall be as follows:

Contract Year	Amount
Commencement to June 30, 1990	$
July 1, 1990 to June 30, 1991	
July 1, 1991 to June 30, 1992	
July 1, 1992 to June 30, 1993	
July 1, 1993 to June 30, 1994	
July 1, 1994 to June 30, 1995	
July 1, 1995 to June 30, 1996	
July 1, 1996 to June 30, 1997	
July 1, 1997 to June 30, 1998	
July 1, 1998 to June 30, 1999	
July 1, 1999 to June 30, 2000	

9.6 It is explicitly understood and agreed that if, for any condition specified in Sections 9.2 or 9.3, Buyer has elected to affirm and enforce this Agreement and, in addition, to collect the Liquidated Damages set forth in Section 9.5, Seller shall have no further obligation to pay additional Liquidated Damages. The payment of Liquidated Damages shall occur, if at all, not more than once.

9.7 The Liquidated Damages shall be paid in cash by Seller to Buyer within thirty (30) days after demand therefor. In the event they are not paid within said thirty-day period, interest at the rate per annum equal to one percent (1%) in excess of the Reference Rate shall accrue from and after the due date and shall be paid simultaneously with the Liquidated Damages. The amount of the Liquidated Damages set forth above shall not be adjusted by the CPI Adjustment or otherwise increased or decreased.

9.8 The Contract Year which shall be applied to determine the amount of the Liquidated Damages shall be the Contract Year in which the first day of the condition giving rise

to the Liquidated Damages occurred.

9.9 If, during the Term of this Agreement, for any reason other than Force Majeure, Seller fails to deliver at least one of the energy sources provided for in this Agreement, either Useable Steam or Alternate Fuels, sufficient to meet Buyer's Requirements up to the limits provided in Article 4, Seller shall be deemed to be in default hereunder, and if Seller fails to correct such condition of default within thirty (30) days after delivery of written notice from Buyer, Buyer shall have the right either to terminate this Agreement for default, or to affirm and enforce this Agreement and, if necessary, to maintain a suit for specific performance. In either case, Buyer

shall also have the right to maintain an action for damages, if any.

9.10 If there is a cessation or outage in the flow of Useable Steam for more than one hundred eighty (180) consecutive days, and during the one hundred eighty (180) day period Seller fails to notify Buyer that the flow of Useable Steam will be resumed within one year after the first day of the outage, or if such notice is timely given, but the flow of Useable Steam is not resumed within one year after the first day of the outage, then Buyer shall have the right at any time thereafter prior to the resumption of the flow of Useable Steam either to terminate this Agreement for default or to affirm the Agreement and, if necessary, to maintain a suit for specific performance. It is understood and agreed that if the cause of the cessation or outage is attributable to Force Majeure or Snelling/Marshall

Bridge Work, there shall be no default and Buyer shall have no right to terminate this Agreement, so long as Seller is supplying Alternate Fuels.

9.11 If for any reason Buyer fails or refuses to pay the costs and charges specified in this Agreement, as they become due, then in addition to the late payment charge provided in Section 7.4 hereof, Seller may terminate this Agreement for default if Buyer has not corrected such delinquency within thirty (30) days after delivery of written notice from Seller, and Seller shall have no further obligations hereunder for damages or otherwise; provided, however, that Buyer shall have the right to contest the obligation to pay any such costs or charges by depositing in escrow (either in the form of cash or an irrevocable letter of credit) with an independent third party institution or with a court of competent jurisdiction, the amount Seller claims is due and owing from Buyer.

9.12 In the event that Seller defaults in its obligations under this Agreement, then Buyer may maintain an action for specific performance, and for damages, if any, but Buyer may not demand or recover Liquidated Damages. It is understood that the conditions described in Sections 9.2 and 9.3 are not conditions of default.

9.13 In the event that Buyer defaults on its obligations under this Agreement, but the default is not specified in Section 7.4 or 9.9, then Seller may maintain an action for specific performance or for damages, if any, but

Seller may not terminate this Agreement and Seller's obligations hereunder shall not be terminated.

9.14 If Seller is unable to perform its obligations hereunder as a result of Force Majeure, neither Seller nor NSP shall be deemed to be default hereunder or the Guaranty and Buyer shall have no right to terminate the Agreement, sue for specific performance or sue for damages.

10. INDEMNITY.

10.1 Seller shall indemnify, defend and hold Buyer harmless from and against all costs, liabilities, claims and damages, whether on account of bodily injury or death, and/or property damage sustained by any person or thing, including employees and property of Seller and any other person or entity or his or its property, which is caused or contributed to by the design, construction, installation, modification, repair or use of the Generating Equipment or the Supply Line or by the escape of steam or Alternate Fuel at any place before it reaches the delivery point at Buyer's Facility; and Seller shall, at its sole expense, defend any and all actions based thereon, and pay all reasonable attorneys' fees, costs and expenses including settlements arising therefrom. Buyer shall tender to Seller the defense of any action arising under this Section. However, Seller is not required to defend and indemnify Buyer under the foregoing provision against:

(1) Claims of injury or damages to Buyer's own personnel, plant and equipment; or

(2) Claims of injury or damages resulting from an act or omission of Buyer which was done with a wrongful intent to cause the injury or damage sustained.

With respect to Section 10.1(1) above, Buyer will provide Seller with all appropriate waivers of subrogation as to the risks insured by the insurance policies required in Section 10.3.

10.2 Buyer shall indemnify, defend and hold Seller harmless from and against all costs, liabilities, claims and damages, whether on account of bodily injury or death and/or property damage sustained by any person or thing including employees and property of Buyer and any other person or entity or his or its property, which is caused or contributed to by the steam or Alternate Fuels or their use after they reach the delivery point at Buyer's Facility; or by the maintenance, repair, or use of any machinery, boilers or equipment at Buyer's Facility, or the interruption of steam to the boilers at Buyer's Facility, and Buyer shall, at its sole expense, defend any and all actions based thereon and pay all reasonable attorneys' fees, costs and expenses including settlements arising therefrom. Seller shall tender to Buyer the defense of any action arising under this Section. However, Buyer is not required to defend and indemnify Seller under the foregoing provisions against:

(1) Claims of injury or damage to Seller's own personnel, plant and equipment; or

(2) Claims of injury or damages resulting from an act or omission of Seller which was done with a wrongful intent to cause the injury or damage sustained.

With respect to Subsection 10.2(1) above, Seller will provide Buyer with all appropriate waivers of subrogation as to the risks insured by the insurance policies required in Section 10.3.

10.3 At all times from and after the commencement of this Agreement until it expires or is terminated, each party shall maintain policies of insurance (unless qualified as a self-insurer under Minnesota law) having the following minimum limits:

(1) Worker's Compensation and Occupational Diseases according to statutory limits;

(2) Employer's Liability in the amount of $.

(3) Comprehensive General Liability - Single limit per occurrence for combined bodily injury and property damage liability:

(a) $ per occurrence, and

(b) $ per aggregate including among other risks normally covered: coverage for liability arising from explosion, collapse and underground damage; independent contractors; broad-form property damage liability; personal injury coverage; coverage for products

and completed operations for an additional period equal to the total length of the construction phase of this Agreement.

10.4 Seller and Buyer shall be responsible for assuring that each of their contractors and their subcontractors carry appropriate insurance.

10.5 Copies of all insurance policies or certificates thereof provided in Section 10.3 above or certification thereof shall be furnished each party hereto by the other party, together with all amendments and replacements.

10.6 The provisions set forth in Sections 10.3, 10.4 and 10.5 shall not relieve or excuse either party from any of its other obligations under this Agreement, including its obligation to indemnify the other party hereunder in the manner and to the extent provided in its indemnification provision above.

10.7 Except as provided in Section 12.5 hereof, no provision of this Agreement shall in any way inure to the benefit of any third person (including the public at large) so as to constitute any such person a third party beneficiary of this Agreement or of any one or more of the terms hereof, or otherwise give rise to any cause of action in any person not a party hereto.

10.8 The provisions of this Article 10 shall apply notwithstanding any other provisions of this Agreement or of any other agreement.

10.9 The provisions of this Article 10 and any other article of this Agreement providing for limitation of or protection against liability of Seller and Buyer and their suppliers or subcontractors shall apply to the full extent permitted by law and regardless of fault, and shall survive the expiration or termination of this Agreement.

11. REPRESENTATIONS.

11.1 Seller hereby represents on behalf of itself:

(1) Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and has corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(2) The execution, delivery, and performance by Seller of this Agreement have been duly authorized by all necessary corporate action on the part of Seller, do not contravene any law, or any government rule, regulation, or order, applicable to Seller or its properties, or the Articles of Incorporation or By-Laws of Seller, and do not and will not contravene the provisions of, or constitute a default under, any indenture, mortgage, contract, or other instrument to which Seller is a party or by which it is bound, and this Agreement constitutes a legal, valid, and

binding obligation of Seller enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, or similar laws at the time in effect.

(3) There are no actions, suits, or proceedings pending or to Seller's knowledge threatened against or affecting Seller before any court or administrative body or agency which might materially adversely affect the ability of Seller to perform its obligations under this Agreement.

11.2 Buyer hereby represents on behalf of itself:

(1) Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(2) The execution, delivery, and performance by Buyer of this Agreement have been duly authorized by all necessary corporate action on the part of Buyer, do not contravene any law, or any governmental rule, regulation, or order, applicable to Buyer or its properties, or the Articles of Incorporation or By-Laws of Buyer, and do not and will not contravene the provisions of, or constitute a default under, any indenture,

mortgage, contract or other instrument to which Buyer is a party or by which Buyer is bound, and this Agreement constitutes a legal, valid and binding obligation of Buyer enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, or similar laws at the time in effect.

(3) There are no actions, suits or proceedings pending or to Buyer's knowledge threatened against or affecting Buyer before any court or administrative body or agency which might materially affect the ability of Buyer to perform its obligations under this Agreement.

12. MISCELLANEOUS.

12.1 Each party hereto will do, execute, acknowledge and deliver all such further acts, conveyances and instruments as the other reasonably shall require for accomplishing the purpose of this Agreement.

12.2 No forbearance on the part of either party in enforcing its rights under this Agreement shall constitute a waiver of any terms of this Agreement, or a forfeiture of any such rights.

12.3 All notices, requests, demands and other communications required by or necessary to this Agreement shall be in writing. Notice shall be deemed to have been given when delivered by hand or deposited in the United States mail, certified with return receipt requested, postage paid, addressed

to the appropriate party at its respective mailing address as set forth immediately below:

If to Seller: NORENCO Corporation
Plaza VII - Suite 3140
45 South Seventh Street
Minneapolis, Minnesota 55402
Attention: President

With a copy to: Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401
Attention: Senior Vice President
- Power Supply

If to Buyer: Waldorf Corporation
2250 Wabash Avenue
St Paul, Minnesota, 55114
Attention: Senior Vice President
of Mill Operations

Either party to this Agreement, by notice to the other party given as required above not less than ten (10) days prior

to the effective date of the change, may change its address for the purpose of all future communications.

12.4 Each party hereto shall have the right at its option and at its sole cost and expense, to perform or cause its public accountant to perform during normal business hours, an audit of the costs, expenses and other determinations arising, incurred or made hereunder, or to otherwise confirm such costs, expenses or determinations, Seller's Total Costs, the cost of coal and other fuels used as a basis for the calculation of Seller's Total Costs, Line Maintenance Costs and Capital Costs.

12.5 This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto. Each party may assign this Agreement with written notice to the other party, provided, however, such assignment shall not relieve the assignor of its obligations hereunder.

12.6 It is agreed that without regard for the place where this Agreement was made it shall be governed by and construed, in all respects, in accordance with the laws of the State of Minnesota applicable to sales contracts made and to be performed in said state. Venue for any and all actions commenced in connection with this Agreement shall be Hennepin County, Minnesota.

12.7 This Agreement contains all of the understandings of the parties hereto and supersedes and replaces all prior written or oral agreements between them relating to the subject matter herein. This Agreement may not be amended or modified

except in writing signed by an authorized officer of each of the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date and year first above written.

WALDORF CORPORATION

By _____

Its _____

NORENCO CORPORATION

By _____

Its _____

[NRG Energy, Inc. Letterhead]

1221 Nicollet Mall
Suite 700
Minneapolis, MN 55403-2445
Telephone (612) 373-5333
Fax (612) 373-5346

August 27, 1993

Bruce Wilson
Manager Transportation and Procurement
Waldorf Corporation
2250 Wabash Ave.
St. Paul, MN 55164

Dear Bruce,

Please find following NRG's understanding of the agreements reached during our August 25, 1993 meeting in your office.

In previous meetings, we had discussed that NRG has experienced an abnormal year where some costs have increased at a much greater rate than expected. If the "Sellers Total Cost" method on a per MMBTU basis were used this year to set the new steam rates for contract year #6, as previously agreed to, and as set forth in sections 1.1.1 and 1.1.45 of the Energy Agreement between NRG Energy and Waldorf Corporation, the increase would be %.

It was agreed by both NRG and Waldorf that an increase of this magnitude would be unacceptable. It was further agreed that the parties would depart from the provisions of the Energy Agreement and establish a mutually acceptable increase for contract year #6 (1993-94), and then, starting with contract year #7 (1994-95), the parties would revert back to the "Sellers Total Cost" method for all subsequent contract years.

For the 1993-94 rate calculation the parties agreed to modify the "Sellers Total Costs" spreadsheet by simulating a % increase in operating labor, both straight and overtime, which would result in increase in rates retroactive to 7/1/93 of %. The calculation is as follows:

X = $ Standard Rate

X = $ Premium Rate

For contract year #7 (1994-95), the calculation will revert back to the actual costs incurred by NRG, with the exception the actual operating labor costs (straight time and overtime) for July 1992 will be replaced with average actual costs incurred over the 11 months from August 1992 to June 1993. This will negate the unusual change in NRG's

labor costs which occurred in August 1992.

The parties again confirmed that the increased steam rates for contract year #6, i.e., $ Standard Rate and $ Premium Rate, would be retroactive to July 1, 1993.

It was further agreed that this letter as executed by the parties would be included as an addendum to the Energy Agreement dated between NRG and Waldorf.

If you agree with NRG's understanding of the agreement between the parties as explained above, please indicate your acceptance in the space provided. Please let me know if you've any questions or if NRG can be of further service to Waldorf.

Sincerely,

/s/ Ronald J. Will

Ronald J. Will

RJW/jrw

c: File

Law Department

G. Johnson

D. Walker

Accepted

By: /s/ Jack B. Greenshields

Its: Senior Vice President

Date: October 26, 1993

Exhibit 10.8

SECOND AMENDMENT TO ENERGY AGREEMENT

This Second Amendment to the Energy Agreement Between Norenco Corporation and Waldorf Corporation ("Second Amendment") is made and entered into this 31st day of January, 1996 by and between NRG ENERGY, INC., a Delaware Corporation, formerly known as Norenco Corporation ("NRG" or "Seller") and WALDORF CORPORATION, a Delaware Corporation ("Waldorf" or "Buyer").

WITNESSETH THAT:

WHEREAS, Buyer owns and operates a recycled paperboard mill and folding carton plant located in the City of St. Paul, Minnesota ("Buyer's Facility"); and

WHEREAS, Seller's parent, Northern States Power Company ("NSP") owns and operates an electric generating facility located in the City of St. Paul, Minnesota (the "High Bridge Plant"), which produces steam that Buyer purchases through the Energy Agreement, as hereinafter defined; and

WHEREAS, Seller owns a steam line which runs from the High Bridge Plant to Buyer's Facility and has a contract to purchase steam from NSP and, accordingly, sells to Buyer steam pursuant to the Energy Agreement, as hereinafter defined; and

WHEREAS, Buyer, pursuant to the Energy Agreement entered into between Buyer and Norenco Corporation on February 12, 1988 ("Energy Agreement"), currently purchases all of its non-electrical requirements for energy to conduct its operations at Buyer's Facility from Seller in the form of steam and is obligated to purchase such requirements from Seller through June 30, 2001; and

WHEREAS, Buyer and Seller entered the First Amendment to the Energy Agreement on October 26, 1993; and

WHEREAS, Buyer and Seller desire to extend the duration of the Energy Agreement through June 30, 2007 provided that Seller undertakes certain obligations, some of which are currently performed by Buyer pursuant to the Energy Agreement; and

WHEREAS, Seller desires to assume and perform the additional obligations, as hereinafter described.

NOW THEREFORE, in consideration of the premises, mutual covenants and agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto, the parties hereby agree as follows:

GENERAL

All of the terms and conditions set forth in the Energy Agreement, as amended on October 26, 1993, shall remain in full force and effect, except to the extent that such terms and conditions are modified by or in conflict with this Second Amendment, in which case this Second Amendment shall prevail. Subject to the foregoing, Buyer and Seller deem this Second Amendment and the Energy Agreement, as amended on October 26, 1993, as one in the same document (hereinafter collectively referred to as "this Agreement").

1. DEFINITIONS

1.1.1 "ADJUSTED BASE PRICE" shall mean the amount to be paid by Buyer to Seller per BTU's of steam energy delivered to Buyer hereunder, at Buyer's Metering Station, from July 1, 1990 until the termination of this Agreement. During such period, the Adjusted Base Price shall be computed as follows: During each Contract Year commencing July 1, 1990 through the life of this Agreement, the Adjusted Base Prices (both the "Standard Adjusted Base Price" and the "Premium Adjusted Base Price") shall be computed for the ensuing Contract Year by using the Base Prices or Adjusted Base

Prices for the Contract Year having just ended, and increasing or decreasing such Base Prices or Adjusted Base Prices by a percentage equal to the corresponding percentage increase or decrease, as the case may be, between Seller's Total Costs for each of the two immediately preceding Contract Years; provided, however, that regardless of any, increase or decrease in Seller's Total Cost, the Adjusted Base Price for the Contract Year commencing July 1, 1990 and ending June 30, 1991 shall not be less than $ per MMBTU (herein sometimes referred to as "Standard Adjusted Base Price"); and provided further that, if the average usage during any twelve (12) hour

period during the Contract Year commencing July 1, 1990 and ending June 30, 1991 is less than pounds of Useable Steam per hour for reasons other than Buyer's Scheduled Maintenance, the Adjusted Base Price for any such twelve (12) hour period shall be not less than $ per MMBTU (herein sometimes referred to as "Premium Adjusted Base Price").

1.1.6 "BASE PRICE" shall mean:

1.1.6.1 Where the average usage during any twelve (12) hour period is equal to or greater

than pounds of Usable Steam per hour during the months of September through June, or pounds of Usable Steam per hour during the months of July and August, or less than these thresholds due to Buyer's Scheduled Maintenance, an amount equal to $ per MMBTU for all Usable Steam provided during such twelve (12) hour period, measured at Buyer's Metering Station (herein sometimes referred to as the "Standard Base Price"); or

1.1.6.2 Where the average usage during any twelve (12) hour period is less than pounds of Usable Steam per hour during the months of September through June, or than pounds of Usable Steam per hour during the months of July and August, for reasons other than Buyer's Scheduled Maintenance, an amount equal to $ per MMBTU for all Usable Steam provided during such twelve (12) hour period, measured at Buyer's Metering station (herein sometimes referred to as the "Premium Base Price").

1.1.6.3 The twelve (12) hour periods during which average usage is calculated shall be the "a.m." period from 12:00 midnight until 12:00 o'clock noon, and the "p.m." period from 12:00 noon until 12:00 o'clock midnight. Such time intervals may be changed from time to time as Buyer and Seller determine and set forth in a standard operating plan. The Base Price shall not be adjusted during the period from the date hereof through June 30, 1990.

1.1.13A "BUYER'S SCHEDULED MAINTENANCE" shall mean any Buyer's facility maintenance that requires Buyer's average usage during any twelve (12) hour period to fall below pounds of Useable Steam per hour and for which Buyer has provided Seller notice at least two (2) days prior to such maintenance.

1.1.14 "CAPITAL COSTS" shall mean all costs, which costs are required by law to be capitalized for tax purposes under the Internal Revenue Code as existing and in effect on the date such costs are incurred, and which are incurred in a) replacing, restoring or improving the Supply Line, including

the costs of the Snelling/Marshall Bridge Work, and right-of-way relocations, and b) constructing, developing and establishing a Make Up Water System including, without limitation, all costs incurred by purchasing, installing and integrating a reverse osmosis system and constructing and drilling a water well at the High Bridge Plant and installing any necessary equipment at the High Bridge Plant and Buyer's Facility.

1.1.17 "CONDENSATE" shall mean steam condensate return water for the High Bridge Plant. "ACCEPTABLE CONDENSATE" returned shall not have been in contact with the Buyer's process.

1.1.25 "FORCE MAJEURE" shall mean acts of God, war, civil commotion, fire, explosions, the elements or other casualty, labor strikes or disputes, action or orders of governmental agencies or institutions or the courts, or other causes beyond the reasonable control of a party hereto (which shall expressly include NRG's inability, despite NRG's reasonable efforts, to obtain an extension to St. Paul Ordinance #17567, dated March 30, 1988, which expires on June 30, 2001 and permits NRG to deliver Useable Steam to Buyer) which preclude or

materially impair the operation of the Generating Equipment, the High Bridge Plant, the Supply Line or the boilers at Buyer's Facility, or shut down or materially impair the sources or means of energy supply, or preclude or materially impair Buyer from accepting delivery of energy; provided, however, that energy price considerations shall not be deemed to be a Force Majeure; and provided further that failure to timely contract for any energy supply shall not be deemed to be a Force Majeure; and provided further that overload or excess demand not caused by any of the foregoing (including demand caused by extremes in temperature or prolonged periods of high or low temperatures) shall not be deemed to be a Force Majeure; and provided further, that if any Force Majeure conditions relating

to the Supply Line can be corrected by the expenditure of funds (net of Buyer's contribution under Section 8.5.2 and any insurance proceeds received by Seller) which, for each occurrence, are less than $ or 50% of the amount of the Liquidated Damages set forth in Section 9.5 for that same Contract Year, whichever amount is greater, and if Seller elects not to expend the funds necessary to cure such Force Majeure conditions in a timely manner, then such

conditions shall not be deemed to be a Force Majeure.

1.1.30A "LAY UP SERVICES" shall mean all services necessary to lay up Buyer's present boiler system and demineralization system, in wet storage and in a state of readiness that would allow for light off and full operation in less than twenty four hours.

1.1.32A "MAKE UP WATER" shall mean all water to be added by Seller to Acceptable Condensate in the amount and form necessary to provide Buyer Useable Steam under this Agreement.

1.1.32B "MAKE UP WATER CHARGE" shall mean the monthly amount of $ that Buyer agrees to pay Seller for providing Make Up Water. The Make Up Water Charge of $ per month is based in part upon Seller's represented estimate that the Make Up Water System will cost Seller $ to construct and install. The Make Up Water System cost consists of improvements of $ at the NSP High Bridge Plant and $ at Buyer's facility. If the costs to construct and install the improvements at Buyer's facility exceed $ the parties shall agree either to adjust

the Make Up Water Charge to reflect, or to have Buyer reimburse Seller for, the actual costs in excess of $.

1.1.32C "MAKE UP WATER COMMENCEMENT DATE" shall mean the first day the Make Up Water System is used to provide Make Up Water. The Make Up Water Commencement Date shall not occur until (1) the Make Up Water System has been constructed, thoroughly tested and placed in continuous operation meeting specifications under this Agreement to produce Useable Steam for twelve hours immediately preceding the Make Up Water Commencement Date, (2) the standard operating plan for the Energy Agreement has been revised, approved and implemented by

Buyer and Seller to account for the Make Up Water System; provided, however, that Buyer may waive this requirement for a revised standard operating plan if the parties are unable to agree on the contents of such revised standard operating plan, and (3) Seller has given Buyer at least twenty-four (24) hours advance notice of the Make Up Water Commencement Date, which notice Buyer may waive. Seller shall use all reasonable efforts to cause the Make Up Water Commencement Date to occur on or before July 1, 1996.

1.1.32D "MAKE UP WATER SYSTEM" shall mean the entire system necessary for Seller to provide and deliver Make Up Water.

1.1.39A "NRG" shall mean NRG ENERGY, INC. a corporation organized under the laws of the State of Delaware, which is a wholly-owned subsidiary of NSP, was formerly known as NORENCO Corporation, and is the owner and operator of the Supply Line and the Make Up Water System.

1.1.40A "OPERATIONS AND MAINTENANCE SERVICES" shall mean all services necessary to operate and maintain the Make Up Water System.

1.1.42 "SELLER" shall mean NRG.

1.1.48 "TERM" shall mean the period of time beginning on the Commencement Date and continuing through June 30, 2007, subject to the occurrence of the Condition Precedent contained in Section 2.6, or unless sooner terminated as provided under this Agreement.

1.1.50 "VERIFIABLE COSTS" shall mean all reasonable and necessary incremental costs actually incurred by

Seller in providing Lay Up Services and Operations and Maintenance Services, broken out for each category but shall not include any Capital Costs. The types of Verifiable Costs are listed on Second Amendment Exhibit I attached hereto. Buyer shall have the right to have an independent third party, knowledgeable as to Seller's operations and systems, audit Seller's records to verify the amount, reasonableness and

necessity of Seller's actual costs incurred that support Seller's reported Verifiable Costs. In order to exercise its right to audit a particular fiscal year, Buyer must notify Seller within ninety days after the end of Seller's fiscal year, except that prior years may also be audited if the audit for such fiscal year reveaols variation in excess of five (5) percent from Seller's reported Verifiable Costs. If Seller's reported Verifiable Costs for any Contract Year exceed the actual amount of reasonable and necessary costs determined by Buyer's third party auditor by more than one (1) percent, Seller shall refund to Buyer any amount overcollected and if said amount is more than five (5) percent Seller shall also pay all fees and costs of Buyer's third party auditor. Seller shall

make available all records reasonably required by the third party auditor.

1.1.51 "VERIFIABLE COSTS CHARGE" shall mean the Verifiable Costs incurred by NRG each month, commencing July 1 of each year beginning on July 1, 1996, plus fifteen percent (15%), until such time that the cumulative total of Verifiable Costs exceed $ as adjusted annually by the CPI Adjustment. At the point that the cumulative total of Verifiable Costs for the period beginning July 1 exceeds $ as adjusted annually by the CPI Adjustment, the Verifiable Cost Charge for the month in which the $ cumulative total is exceeded and thereafter shall mean the Verifiable Costs incurred by NRG during the applicable month(s). If, however, the cumulative total of Verifiable Costs for the period beginning July 1 exceed $ as adjusted annually by the CPI Adjustment the Verifiable Costs Charge for the month in which the $ cumulative total is exceeded shall mean the Verifiable Costs incurred by NRG during the applicable month, less fifty percent (50%) of the amount by which the total of Verifiable Costs exceeds $. Thereafter, for the remaining months until June 30, the Verifiable

Cost Charge shall mean fifty percent (50%) of the applicable month's Verifiable Costs.

2. CONSTRUCTION; OWNERSHIP; OPERATION; SERVICES.

2.1 In addition to the provisions of Section 2.1 of the Energy Agreement, Seller, at its cost, shall construct, develop and establish a Make Up Water System by, without limitation, purchasing, installing and integrating a reverse osmosis system and drilling a water well at the High Bridge Plant and installing any necessary equipment at both the High Bridge Plant and Buyer's Facility.

2.2 In addition to the provisions of Section 2.2 of the Energy Agreement, Seller shall, at its cost, obtain all licenses or permits to construct, develop, establish and operate the Make Up Water System.

2.3 Section 2.3 of the Energy Agreement is deleted in its entirety and replaced with the following:

> Throughout the Term of this Agreement, Seller shall own, operate, maintain, repair and adjust the Supply Line and the Make Up Water System, and shall cause NSP to maintain, adjust and repair the Generating Equipment.

> Buyer shall own, maintain and repair all Associated Equipment. Seller shall have the right to enter Buyer's Facility for the purpose of maintaining and repairing the Supply Line and any part of the Make Up Water System located there, and to the extent Buyer does not adequately and timely maintain the Associated Equipment, enter Buyer's Facility for the purpose of maintaining and repairing the Associated Equipment including all modifications, adjustments, replacements and additions which have heretofore or may hereafter be made to Buyer's Facility and shall be reimbursed by Buyer for such maintenance repair, modification, adjustment, replacement and additions.

2.4 Section 2.4 of the Energy Agreement is deleted in its entirety and replaced with the following:

> Buyer shall not, by reason of this Agreement or the termination of this Agreement or the payments made pursuant to this Agreement, acquire title or ownership in or to the Generating Equipment, the Supply Line or the Make Up Water System, and Seller shall not

acquire title or ownership in or to the Associated Equipment.

2.5 Section 2.5 of the Energy Agreement is deleted in its entirety and replaced with the following:

> Any portion of the Supply Line or the Make Up Water System (except the Associated Equipment) heretofore or hereafter placed at Buyer's Facility by Seller for the purpose of furnishing steam or Make Up Water hereunder shall be and remain the property of Seller, and Buyer shall exercise reasonable care to protect such portion of the Supply Line or the Make Up Water System from loss or damage.

2.6 The parties acknowledge that this Second Amendment to the Energy Agreement will be signed in advance of the required Minnesota Public Utility Commission approval of a certain Amendment to the Amended Agreement for the Sale of Thermal Energy between Norenco Corporation and NSP dated May 17, 1993 (the "NSP Agreement"), which amendment shall, among other things, extend the term of the NSP Agreement to December 31, 2008 (such approval hereinafter referred to as the "Condition Precedent"). The extension of the Energy Agreement Term through June 30, 2007 is subject to occurrence of the Condition Precedent. If,

for any reason, this Condition Precedent does not occur, then the Term of the Energy Agreement shall run through its original Term, June 30, 2001.

3. TERM.

3.1 Section 3.1 is hereby deleted and replaced in its entirety with the following:

> This Agreement shall continue through June 30, 2007, subject to the occurrence of the Condition Precedent contained in Section 2.6, unless sooner terminated as provided under this Agreement.

4. QUANTITY.

4.1.13 In addition to the provisions of Sections 4.1.1 through 4.1.12 of the Energy Agreement, in the event an Interruption occurs, Seller shall advise Buyer whether Seller can repair the malfunction in a timely and efficient manner to justify a delay in starting up Buyer's boiler and demineralization systems.

5. CONDENSATE RETURN.

5.1 Section 5.1 of the Energy Agreement is deleted in its entirety and replaced with the following:

During each Contract Year of the Term, Buyer shall deliver to Seller all of Buyer's Condensate, except for nominal amounts used by Buyer from time to time, for use in producing Buyer's steam at the High Bridge Plant. Seller shall provide the water to initiate steam production and all Make Up Water.

5.3 During each contract year of the Term after the Make Up Water Commencement Date, Seller shall temper and sewer Condensate. However, from time to time, to facilitate Condensate return line maintenance by Seller, Seller may request, and Buyer shall use all reasonable efforts to comply, that Buyer temper and sewer Condensate. For any Condensate tempered and sewered by Buyer hereunder, Seller shall credit Buyer for the BTU content of the Condensate tempered, measured at Buyer's Metering Station, reasonable documented costs of tempering and sewering the Condensate plus fifteen percent (15%) (such costs hereinafter "Buyer's Condensate Credit").

7. BILLING.

7.1 Section 7.1 of the Energy Agreement is deleted in its entirety and replaced with the following:

Seller shall submit a bill following the end of each month of the Term which shall include:

(1) the number of MMBTUs of Useable Steam delivered and the number of MMBTUs of steam generated at Buyer's Facility with Alternate Fuels and Condensate returned during the preceding month;

(2) the Net MMBTUs of Steam received by Buyer during the preceding month;

(3) the amount of the applicable Base Price or the applicable Adjusted Base Price;

(4) the nature, amount and price of any Alternate Fuel delivered by Seller during the preceding month;

(5) the Energy Charge;

(6) Interruptions and Down Time (number, length, and consequence);

(7) the amount of the Ordinance Fee;

(8) beginning on the Make Up Water Commencement Date,

(a) the Make Up Water Charge;

(b) Verifiable Costs Charge; and

(c) the Buyer's Condensate Credit; and

(9) other charges as applicable.

8. COSTS AND CHARGES.

8.1 Section 8.1 of the Energy Agreement is deleted in its entirety and replaced with the following:

> For each month of the Term, Buyer shall be obligated to pay Seller an Energy Charge, a Make Up Water Charge, and Verifiable Cost Charge, based upon the bills received from Seller according to Section 7.1 above but subject to any third party audit Buyer may conduct, and Buyer shall pay such other amounts as are otherwise required pursuant to Article 8 of this Agreement.

8.2 Section 8.2 of the Energy Agreement is deleted in its entirety and replaced with the following:

> Buyer shall pay or reimburse Seller for its payment of the Ordinance Fee related to Useable Steam. Seller shall obtain an amendment to any applicable ordinance necessary to deliver Useable Steam throughout the Term. Seller shall bear and pay any and all ad valorem property taxes and assessments levied on the construction or ownership of the Supply Line and any and all franchise fees associated with the delivery of Useable Steam hereunder and shall cause NSP to pay such taxes and assessments levied on the Generating Equipment, without reimbursement from Buyer.

8.5.1 Section 8.5.1 of the Energy Agreement is deleted in its entirety and replaced with the following:

> Seller shall pay, without contribution or reimbursement by Buyer, all Capital Costs exclusive of normal maintenance incurred during the Term hereof which are necessary to ensure an efficient utilization of the Supply Line through June 30, 2007, and which are not the result of Force Majeure

> or are not related to the performance of the Snelling/Marshall Bridge Work.

10. INDEMNITY.

10.1 Section 10.1 of the Energy Agreement is deleted in its entirety and replaced with the following:

> Seller shall indemnify, defend and hold Buyer harmless from and against all costs, liabilities, claims and damages, whether on account of bodily injury or death, and/or property damage sustained by any person or thing, including employees and property of Seller and any other person or entity or his or its property, which is caused or contributed to by the design, construction, installation, modification, repair or use of the Generating Equipment or the Supply Line or the Make Up Water System or by the escape of steam or Alternate fuel at any place before it reaches the delivery point at Buyer's Facility; and Seller shall, at its sole expense, defend any and all actions based thereon, and pay all reasonable attorneys' fees, costs and expenses including settlement arising therefrom. Buyer shall tender to Seller the defense of any action arising under this Section. However, Seller is not required to

> defend and indemnify Buyer under the foregoing provision against:
>
> (1) Claims of injury or damages to Buyer's own personnel, plant and equipment; or
>
> (2) Claims of injury or damages resulting from an act or omission of Buyer which was done with a wrongful intent to cause the injury or damage sustained.

With respect to Section 10.1(1) above, Buyer will provide Seller with all appropriate waiver of subrogation as to the risks insured by the insurance policies required in Section 10.3.

11. REPRESENTATIONS.

11.1 Section 11.1 of the Energy Agreement is deleted in its entirety and replaced with the following:

Seller hereby represents on behalf of itself:

(1) Seller is a corporation duly organized validly existing and in good standing under the laws of the State of Delaware and has corporate power and

authority to execute and deliver this Agreement and to perform its obligations hereunder.

(2) The execution, delivery, and performance by Seller of this Agreement have been duly authorized by all necessary corporate action on the part of Seller, do not contravene any law, or any government rule, regulation, or order, applicable to Seller or its properties, or the Articles of Incorporation or By-Laws of Seller, and do not and will not contravene the provisions of, or constitute a default under, any indenture, mortgage, contract, or other instrument to which Seller is a party or by which it is bound, and this Agreement constitutes a legal, valid, and binding obligation of Seller enforceable in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, or similar laws at the time in effect.

(3) There are no actions, suits, or proceedings pending or to Seller's knowledge threatened against or affecting Seller before any court or administrative body or agency which might materially adversely affect the ability of Seller to perform its obligations under this Agreement.

(4) Seller has received an estimate from HDR Engineering that the construction and installation of the Make Up Water System shall, after adjusting for inflation, cost approximately $

12. MISCELLANEOUS.

12.3 Section 12.3 of the Energy Agreement in deleted in its entirety and replaced with the following:

All notices, requests, demands and other communications

required by or necessary to this Agreement shall be in writing. Notice shall be deemed to have been given when delivered by hand or deposited in the United States mail, certified with return receipt requested, postage paid, addressed to the appropriate party at its respective mailing address as set forth immediately below:

If to Seller: NRG Energy, Inc.
Suite 700
1221 Nicollet Mall
Minneapolis, Minnesota 55403-2445
Attention: Vice President
Operations and Engineering

With a copy to: Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401
Attention: Senior Vice
President - Power Supply

If to Buyer: Waldorf Corporation
2250 Wabash Avenue
St. Paul, Minnesota 55114
Attention: Senior Vice
President of Mill Operations

Either party to this Agreement, by notice to other party given as required above not less than ten (10) days prior to the effective date of the change, may change its address for the purpose of all future communications.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date and year first above-written.

WALDORF CORPORATION

By /s/ Jack B. Greenshields

Its Senior Vice President
Mill Business Group

NRG ENERGY, INC.

By /s/ Ronald J. Will

Its

Second Amendment Exhibit 1

Labor
Miscellaneous Maintenance Cleaning I&C, etc.
Resin Replacement
    Cation
    Anion
Reverse Osmosis Membrane Replacement
Reverse Osmosis Membrane Cleaning
Chemical, D.I. Regen
Auxiliary Power - Reverse Osmosis System
Auxiliary Power - Well
Well Maintenance
Sewer Costs - Reject
Sewer Costs Neutralization
Anti-scale and Acid Feed
Water for Demineralization Lay Up Procedure
Salt
Weekly Monitoring for Demineralization System
Nitrogen
Ground Water Fees
City Water Fees
Other Reasonable Miscellaneous Costs

Exhibit 10.9

[NRG ENERGY, INC. LETTERHEAD]

1221 Nicollet Mall
Suite 700
Minneapolis, MN 55403-2445
Telephone (612) 373-5300
Fax (612) 373-5346

August 25, 1997

Mr. Michael D. Henderson
Mill Controller
Rock Tenn Company
2250 Wabash Avenue
St. Paul, Minnesota 55114

Dear Mike:

Please find following NRG's understanding of the agreements reached during our meeting in your office.

In contract year 1996-1997, the price increase of % was agreed to be spread over two years. On an actual cost basis, this would have resulted in a price increase of % for the contract year 1997-98.

It was agreed by both NRG and Waldorf that an increase of this magnitude would be unacceptable. It was further agreed that the parties would depart from the provisions of the Energy Agreement and establish a mutually acceptable increase for contract year #10 (1997-98), and then, starting with contract year #11 (1998-99), the parties would revert back to the "Sellers Total Cost" method for all subsequent contract years.

For the 1997-98 rate calculation the parties agreed to modify the Sellers Total Costs" spreadsheet by simulating a % overall increase, which would result in an increase in rates retroactive to 7/1/96 of %. The calculation is as follows:

x = $ Standard Rate
x = $ Premium Rate

For contract year #11 (1998-99), the calculation will revert back to the actual costs incurred by NRG.

The parties again confirmed that the increased steam rates for contract year #10, i.e., Standard Rate and Premium Rate, would be retroactive to July 1, 1997.

It was further agreed that this letter, as executed by the parties, would be included as an addendum to the Energy Agreement dated between NRG and Waldorf.

Earlier this year, it was agreed that the cold iron outage would be moved from fall, 1997, to spring, 1997. Since NRG had budgeted the cold iron outage for fall, this decision impacted the project budget. At that time, Rock Tenn agreed to allow NRG to complete $ of repairs to the condensate line and bill those services for payment after July 1, 1997. This charge will appear on the August, 1997 bill.

If you agree with NRG's understanding of the agreement between the parties as explained above, please indicate your acceptance in the space provided. Please

let me know if you have any questions or if NRG can be of further service to Waldorf.

Sincerely,

NRG ENERGY, INC.

Michael R. Carroll
Managing Director-Thermal Operations

Cc: Christie Johns
Gary Johnson
Mike Muonio

Accepted

By: /s/ Michael Henderson

Its: Mill Controller

Date: September 3, 1997

CONSTRUCTION, ACQUISITION AND TERM LOAN AGREEMENT

dated September 12, 1997

by and among

NEO LANDFILL GAS INC.
as Borrower,

the Lenders Named on the Signature Pages
to this Agreement,

CREDIT LYONNAIS NEW YORK BRANCH
as Construction/Acquisition Agent,

and

LYON CREDIT CORPORATION,
as Term Agent

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CONSTRUCTION, ACQUISITION AND TERM LOAN AGREEMENT

This CONSTRUCTION, ACQUISITION AND TERM LOAN AGREEMENT, dated September 12, 1997 (this "Agreement"), is by and among NEO LANDFILL GAS, INC., a Delaware corporation ("Borrower"), the lenders named on the signature pages to this Agreement (the "Lenders"), CREDIT LYONNAIS NEW YORK BRANCH, as agent for the Lenders identified as Construction/Acquisition Lenders on the signature pages to this Agreement (together with its successors and assigns in such capacity, the "Construction/Acquisition Agent") and LYON CREDIT CORPORATION, a Delaware corporation, as agent for the Lenders identified as Term Lenders on the signature pages to this Agreement (together with its successors and assigns in such capacity, the "Term Agent").

RECITALS:

WHEREAS, Borrower owns 99% of the outstanding equity of seventeen Gascos (as defined below) and 97% of the outstanding equity of one other remaining Gasco, each of which owns, or upon the construction or acquisition thereof will own, the gas collection and production assets relating to a Project (as defined below); and

WHEREAS, Borrower has requested that the Lenders provide a portion of the financing for the construction or acquisition of the Projects and the Lenders are willing to do so on the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in order to induce the Lenders to provide such financing, the parties hereto covenant and agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms used and not otherwise defined in this Agreement have the meanings given to those terms in Schedule X hereto, and the rules of construction set forth in Schedule X govern this Agreement.

ARTICLE II
THE LOANS

Section 2.1 Commitments.

(a) Construction/Acquisition Loan Commitments and Term Loan Commitments. On the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants contained herein, (i) each Construction/Acquisition Lender severally agrees to make the

Construction/Acquisition Loans to Borrower in an aggregate amount not to exceed its Pro Rata Share of the Aggregate Construction/Acquisition Loan Commitment and (ii) each Term Lender severally agrees to make the Term Loans to Borrower in an aggregate amount not to exceed its Pro Rata Share of the Aggregate Term Loan Commitment.

(b) Separate Obligations. Each Lender will fund its Pro Rata Share of the Construction/Acquisition Loans and of the Term Loans simultaneously with the other Lenders at the times designated by the applicable Agent pursuant to Section 2.2(d); provided, that the failure of any Lender to fund its Pro Rata Share of a Loan will not affect the obligation of any other Lender to fund its Pro Rata Share of such Loan. No Lender will be responsible for a default by any other Lender in funding its Pro Rata Share of a Loan nor will any Commitment of any Lender be increased or decreased by reason of any such default.

(c) Lender Assurances. Notwithstanding any provision to the contrary contained in Section 2.1(b), Lyon Credit Corporation, in its capacity as a Term Lender, agrees, upon any failure by any other Term Lender to fund such Term Lender's Pro Rata Share of a Term Loan pursuant to Section 2.2(d), to fund such other Term Lender's Pro Rata Share of a Term Loan and, if necessary, Lyon Credit Corporation's Commitment will be deemed to have been increased to accommodate such funding, but not in such an amount as to exceed the Aggregate Term Loan Commitment.

Section 2.2 Funding of the Loans.

(a) The Construction/Acquisition Loans.

(i) Borrower may request one or more Construction/Acquisition Loans relating to one or more Projects to be made on a Construction/Acquisition Loan Date by complying with the following procedure:

(A) First, Borrower will give the Construction/Acquisition Agent at least fifteen (15) Business Days' prior written notice of Borrower's intent to borrow one or more Construction/Acquisition Loans. Such notice will not be binding on Borrower and will (1) specify the proposed Funding Date (which must be a Construction/Acquisition Loan Date), (2) specify the amount and uses of each requested Loan, which shall be in accordance with Section 2.7, and (3) include the certificate and report of the Engineer required by Sections 3.2(a)(iii) and 3.2(a)(ix) and copies of all documents necessary to satisfy the other conditions precedent contained in Section 3.2.

(B) Second, if the Construction/Acquisition Agent does not notify Borrower within ten (10) Business Days after its receipt of the notice given to it pursuant to Section 2.2(a)(i)(A) that a condition precedent contained in Section 3.2 has not been satisfied, then Borrower may deliver to the Construction/Acquisition Agent a Notice of Borrowing, which will be binding on Borrower and will (1) specify the Funding Date (which must be a Construction/Acquisition Loan Date and will be at least five (5) Business Days following the Construction/Acquisition Agent's receipt of the Notice of Borrowing or such shorter time period as the Construction/Acquisition Agent may permit in its sole discretion) and (2) specify the Interest Period for the requested Construction/Acquisition Loans. Borrower may specify only one Interest Period for Construction/Acquisition Loans that are made on a Funding Date and such Interest Period may be one (1), two (2), three (3), six (6), nine (9) or twelve (12) months in duration; provided, that no Interest Period may extend after October 30, 1998.

(ii) Each Construction/Acquisition Loan will be in an initial principal amount not greater than ninety percent (90%) of the aggregate amount of the Qualified Project Construction Costs or Qualified Project Acquisition Costs, as applicable, relating to a Project and evidenced by the invoices delivered to the Engineer pursuant to Sections 3.2(a)(ii) and (iii). Each Construction/Acquisition Loan will mature on its respective Construction/Acquisition Loan Maturity Date, unless payment thereof is due prior to such date by acceleration, mandatory prepayment or otherwise and unless payment of a portion thereof is agreed to be due on October 30, 1998 pursuant to Section 2.2(g).

(b) Construction/Acquisition Loans to Pay Interest, Fees and Expenses. On each Business Day during the Construction/Acquisition Loan Period on which interest, fees or expenses are due and payable and are not otherwise paid or provided for, Borrower hereby irrevocably authorizes the Construction/Acquisition Lenders, in their sole discretion, to make Construction/Acquisition Loans to Borrower in the aggregate amount of all interest, fees and expenses then due and payable and hereby irrevocably authorizes the Construction/Acquisition Agent to apply the proceeds of such Loans to the payment of such interest, fees and expenses. The Construction/Acquisition Lenders have no obligation to make a Loan for the purposes stated in this Section 2.2(b). No Loan will be made pursuant to this Section 2.2(b) if an Event of Default has occurred and is continuing.

(c) The Term Loans.

(i) Borrower may request one or more Term Loans relating to one or more Projects to be made by complying with the following procedure:

(A) First, Borrower will notify in writing the Construction/Acquisition Agent, the Term Agent and the Engineer at least fifteen (15) days prior to the commencement of the performance tests required to achieve Completion of each Project that is the subject of a proposed Term Loan; provided, that Borrower may not give more than one such notification per calendar month.

(B) Second, following the successful completion of the tests described in Section 2.2(c)(i)(A), Borrower will give the Construction/Acquisition Agent and the Term Agent at least twenty (20) Business Days' prior written notice of Borrower's intent to borrow one or more Term Loans relating to the completed Project or Projects. Such notice will not be binding on Borrower and will (1) specify the proposed Funding Date, (2) specify the amount and uses of each requested Term Loan, which shall be in accordance with Section 2.7, and (3) include the report of the Engineer required by Section 3.3(a)(x) and copies of all documents necessary to satisfy the other conditions precedent contained in Section 3.3 and, if appropriate, Section 3.4.

(C) Third, within ten (10) Business Days of its receipt of the notice and documents described in Section 2.2(c)(i)(B), the Term Agent will notify Borrower in writing of the satisfaction (or waiver) of the conditions precedent to the making of the requested Term Loan or Loans contained in Section 3.3 or, if such conditions precedent have not been satisfied (or waived),

the Term Agent will notify Borrower of the deficiencies. If the conditions precedent have not been satisfied (or

waived), Borrower may provide such information and documentation as is necessary to satisfy such conditions precedent and the Term Agent will promptly review such information and documentation and notify Borrower in writing of its determination.

(D) Fourth, after receiving notification from the Term Agent that the conditions precedent to the requested Term Loans have been satisfied or waived, Borrower may deliver to the Term Agent a Notice of Borrowing, which will be binding on Borrower and will (1) specify the Funding Date (which will be at least five (5) Business Days following the Term Agent's receipt of the Notice of Borrowing) and (2) specify the Construction/Acquisition Loan or Loans that are to be converted.

(ii) Irrespective of the aggregate principal amount of the Construction/Acquisition Loan or Loans relating to a single Project that a Term Loan replaces, the initial principal amount of a Term Loan will not be greater than the least of (x) an amount equal to the present value (discounted at the Interest Rate applicable to such Term Loan for a period not to exceed ten (10) years) of two-thirds (66.7%) of the Net Operating Cash projected by the Closing Pro Forma (as updated in preparation for the making of the Term Loan based upon the results of the performance testing of the relevant Project and the information contained in the report of the Engineer) to be produced by the Project corresponding to such Term Loan, (y) an amount equal to seventy percent (70%) of the sum of the cost to construct or acquire such Project, actual reimbursed development expenses, interest on the corresponding Construction/Acquisition Loan, related Closing Costs and all other reasonable costs of Borrower and the Affiliates associated with the acquisition or construction and financing of the Project corresponding to such Term Loan and (z) an amount equal to the remaining amount available under the Aggregate Term Loan Commitment.

(iii) Each Term Loan will mature on its respective Term Loan Maturity Date, unless payment thereof is due prior to such date by acceleration, mandatory prepayment or otherwise.

(d) Funding Procedure. Promptly after receipt of a Notice of Borrowing relating to a Construction/Acquisition Loan or a Term Loan, the applicable Agent will notify each applicable Lender of the proposed Loan or Loans and of such Lender's Pro Rata Share thereof, and each applicable Lender will make available to the applicable Agent at such Agent's main office in

Stamford, Connecticut, or New York Branch, as the case may be, such Lender's Pro Rata Share of the proposed Loan or Loans in immediately available funds no later than 10:00 a.m., New York City time, on the Funding Date. Upon satisfaction or waiver of the applicable conditions precedent set forth in Article III, the applicable Agent will disburse all such amounts made available to it by the Lenders to or for the benefit of Borrower; provided, that in the case of the funding of a Construction/Acquisition Loan, the Construction/Acquisition Agent will disburse to or for the benefit of Borrower only ninety percent (90%) of the requested Loan amount and will retain the remaining ten percent (10%) (the "Construction/Acquisition Holdback Amount") as Collateral to be released to Borrower upon the Term Loan Conversion Date relating to such Construction/Acquisition Loan after payment to the Construction/Acquisition Lenders of accrued interest on such Construction/Acquisition Loan; provided, further, that the proceeds of a Term Loan that results from the conversion of a Construction/Acquisition Loan will be paid first to the Construction/Acquisition Agent in the amount of the aggregate of all unpaid principal and interest of, and fees corresponding to, the Construction/Acquisition Loans that are being converted, and the balance of the proceeds of such Term Loan, if any, will be paid to or for the benefit of Borrower; provided, further, that if pursuant to the restrictions on the initial principal amount of a Term Loan contained in Section 2.2(c)(ii), the

principal amount of the Term Loan replacing a Construction/Acquisition Loan is not sufficient to pay in full the outstanding principal amount of the Construction/Acquisition Loan, then the Construction/Acquisition Agent shall apply the Construction/Acquisition Holdback Amount to pay the remaining balance of the Construction/Acquisition Loan in full and then shall release the remaining portion, if any, of the Construction/Acquisition Holdback Amount to Borrower in accordance with the first proviso of this sentence. Unless a Lender has notified the applicable Agent prior to the Funding Date of a Loan that such Lender does not intend to make available its Pro Rata Share of such Loan, the Agent may assume that such Lender has made such amount available to the Agent on the Funding Date and the Agent may, in its sole discretion, make available to Borrower a corresponding amount on the Funding Date; provided, that the Agent has no obligation to make available to Borrower any amount not actually received from the Lenders. If an Agent makes available to Borrower any Loan amount not received from a Lender, the Agent will be entitled to recover such amount on demand from such Lender, together with interest thereon for each day from the Funding Date that such amount remains unpaid at the customary rate set by the Agent for the correction of errors among banks. If the defaulting Lender does not pay such amount forthwith upon demand by the Agent, the Agent will promptly notify Borrower and Borrower will immediately pay such amount to the Agent, together with interest on such amount at the applicable Interest Rate for each day from the Funding Date that such amount remains unpaid. Any such payment by Borrower will not be deemed a prepayment for purposes of Section 2.8. Each Lender agrees that if it fails to make available or to reimburse an Agent for any amount made available by the Agent on its behalf, it will have no interest in such amount and hereby assigns all of its right, title and interest in such amount to any assignee designated by the Agent. Nothing in this paragraph will be deemed to relieve any Lender of its obligation to fulfill its Commitments hereunder or prejudice any right Borrower may have against any Lender as a result of any default by such Lender.

(e) Continuation of Construction/Acquisition Loans. At least five (5) Business Days prior to the end of each Interest Period of each Construction/Acquisition Loan, Borrower may request in a written notice delivered to the Construction/Acquisition Agent that a Construction/Acquisition Loan be continued with an Interest Period specified by Borrower; provided, that no Interest Period may extend beyond October 30, 1998. Such written notice will specify (i) the proposed date of continuation, (ii) the Construction/Acquisition Loan or Loans being continued and (iii) the new Interest Period for each Construction/Acquisition Loan being continued. A Construction/Acquisition Loan may be continued or converted only at the end of its Interest Period. If Borrower does not deliver such a request to the Construction/Acquisition Agent, the Construction/Acquisition Agent will continue each Construction/Acquisition Loan with the same Interest Period; provided, that if such same Interest Period would extend beyond October 30, 1998, then the Construction/Acquisition Agent will continue the Construction/Acquisition Loan with the longest possible Interest Period that does not extend beyond October 30, 1998.

(f) Notices of Borrowing. Each Notice of Borrowing will be irrevocable.

(g) Option to Extend Maturity Date of Portion of Construction/Acquisition Loan. If, pursuant to the restrictions on the initial principal amount of a Term Loan contained in Section 2.2(c)(ii), the principal amount of a Term Loan replacing a Construction/Acquisition Loan, plus the amount of the Construction/Acquisition Holdback Amount applied pursuant to Section 2.2(d) is not sufficient to pay in full the outstanding principal amount of the Construction/Acquisition Loan, and provided that the long-term unsecured debt of Guarantor is rated BBB - or higher by Standard & Poor's, then Borrower may at its option choose to extend the maturity date of such unpaid principal amount of the Construction/Acquisition Loan until October 30, 1998 with one or more Interest Periods (not extending beyond October 30, 1998) chosen by Borrower in accordance with Section 2.2(e) and 2.3(b).

Section 2.3 Interest.

(a) Interest Rates.

(i) Each Loan will bear interest on the unpaid principal amount thereof from the date made to but excluding maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) at the following rates:

(A) each Construction/Acquisition Loan will bear interest during each Interest Period applicable thereto at a rate per annum equal to LIBOR as determined for such Interest Period plus one hundred (100) basis points, computed on each date on which interest is due on any Construction/Acquisition Loan on the basis of a year of 360 days for the actual number of days elapsed; and

(B) subject to adjustment pursuant to Section 2.3(a)(iv), each Term Loan will bear interest at a fixed rate per annum equal to nine and thirty-five one-hundredths percent (9.35%), payable on the basis of a year of 360 days for the actual number of days elapsed.

(ii) LIBOR during a particular Interest Period will be determined by the Construction/Acquisition Agent on the Interest Rate Determination Date with respect to such Loan on the basis of the Interest Period and the amount of the Loan.

(iii) Each determination by an Agent of the Interest Rate applicable to any Loan pursuant to this Section 2.3(a) will be conclusive and binding on the parties absent manifest error, in which case the Interest Rate will be corrected and all payments of Borrower affected by the incorrect Interest Rate determination will be appropriately adjusted.

(iv) The Interest Rate applicable to each Term Loan will be increased as necessary as of October 30, 1998, to reflect any increased cost to the Term Agent and the Term Lenders resulting from any variation between the actual Funding Dates of the Term Loans and the projected Funding Dates of the Term Loans contained in the Closing Pro Forma as of the Closing Date. The Interest Rate will be increased in an amount sufficient to reimburse the Term Agent and the Term Lenders for any increased cost to any of them arising from the contracts or other arrangements entered into by the Term Agent and the Term Lenders with Credit Lyonnais New York Branch or any other Person to provide a fixed rate of interest on the Term Loans. Should Borrower and the Term Lenders

be unable to agree on the increase in the Interest Rate, then Borrower and the Term Lenders shall appoint a firm of independent certified public accountants (which shall be a "Big 6" firm and which shall not at the time have an accounting relationship with any of Borrower, the Term Agent and the Term Lenders) to determine the appropriate increase in the Interest Rate, and the fees of such accounting firm shall be paid one-half by Borrower and one-half by the Term Lenders.

(b) Interest Periods.

(i) Each Interest Period with respect to a Construction/Acquisition Loan (A) will begin on and include the day on which such Loan is made, or the day on which such Loan is continued (which will be the day after the last day of the Interest Period of the continued Loan) and (B) will not extend beyond October 30, 1998.

(ii) Subject to Section 2.3(b)(i), (A) Borrower may select an Interest Period of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months, (B) an Interest Period that would otherwise end on a day that is not a LIBOR Business Day will end on the next succeeding LIBOR Business Day, unless such day falls in the next calendar month, in which case such Interest Period will end on the next preceding LIBOR Business Day, and (C) an Interest Period that begins on the last LIBOR Business Day of a calendar month or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, will end on the last LIBOR Business Day of the calendar month at the end of such Interest Period.

(c) Interest Payment Dates. Interest will be payable as follows:

(i) all accrued and unpaid interest on all outstanding Construction/Acquisition Loans will be payable in arrears on the last day of the Interest Period with respect to such Loan.

(ii) all accrued and unpaid interest on all outstanding Term Loans will be payable in arrears on each January 31, April 30, July 31 and October 31, commencing on the first such date following the Funding Date of the first Term Loan;

(iii) all accrued and unpaid interest due on any Loan will be payable in full upon the maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) or prepayment of such Loan; and

(iv) after maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise), interest on any Loan will be payable upon demand.

(d) Default Interest. Overdue principal and overdue interest in respect of any Loan and any other amount payable hereunder or under any other Credit Document by Borrower or any Affiliate that is overdue will bear interest at a rate per annum (the "Default Rate") equal to two percent (2%) in excess of the rate of interest then-applicable to such Loan or, if no rate of interest is applicable to such overdue amount, the highest rate of interest applicable to any outstanding Loan. Upon the occurrence and during the continuance of an Event of Default, all Loans and all other amounts owing by Borrower and the Affiliates will bear interest at the Default Rate.

(e) Limitation. Notwithstanding any other provision of the Credit Documents, if the rate of interest on any obligation of Borrower or any Affiliate under any Credit Document at any time exceeds the highest rate permitted by Applicable Law, the rate of interest on such obligation will be deemed to be the highest rate permitted by Applicable Law.

Section 2.4 Notes. Borrower will execute and deliver to each Construction Lender on the Closing Date a Construction/Acquisition Loan Note substantially in the form of Exhibit 2.4(a) and to each Term Lender on each Term Loan Conversion Date a Term Loan Note substantially in the form of Exhibit 2.4(b). Each Construction/Acquisition Loan Note will be dated the Closing Date, will be in the principal amount of such Construction Lender's Construction/Acquisition Loan Commitment and will evidence such Construction Lender's Pro Rata Share of the Construction/Acquisition Loans made hereunder. Each Term Loan Note will be dated the applicable Term Loan Conversion Date, will be in the principal amount of such Term Lender's Term Loan Commitment and will evidence such Term Lender's Pro Rata Share of the Term Loans made hereunder. Each Note will have other appropriate insertions and will be subject to and entitled to the benefits of the Credit Documents. On each Funding Date relating to a Construction/Acquisition Loan, each Construction/Acquisition Lender is authorized to make a notation on the schedule attached to the relevant Note indicating the date, the amount of such Lender's Pro Rata Share of such Loan and the interest rate of such Loan. The information set forth in such schedule will be prima facie evidence of the outstanding principal amount

of such Note and of the interest due thereon. Failure to make any such notation will not limit or affect the obligations of Borrower under the Notes or any other Credit Document.

Section 2.5 Fees. Borrower will pay to the Agents and the Lenders fees at the times and in the amounts separately agreed among them.

Section 2.6 Security. The Loans and all other amounts payable by Borrower and the Affiliates under this Agreement and the other Credit Documents are secured by the Collateral and are entitled to the benefits of the Security Documents.

Section 2.7 Use of Proceeds.

(a) Construction/Acquisition Loans. The proceeds of the Construction/Acquisition Loans may be used only to pay (i) Qualified Project Construction Costs and Qualified Project Acquisition Costs actually incurred in strict compliance with the Construction/Acquisition Budgets and the Credit Documents and evidenced by the invoices therefor delivered to the Engineer pursuant to Sections 3.2(a)(ii) and (iii), and (ii) interest, fees and other expenses payable pursuant to Section 2.2(b), Section 2.5 and Section 8.11.

(b) Term Loans. The proceeds of each Term Loan may be used only to (i) repay the outstanding principal of and interest on all Construction/Acquisition Loans made with respect to the Project that is the subject of the Term Loan, (ii) fund the Debt Service Reserve Account to the level then-required by the Disbursement Agreement, (iii) pay fees payable to a Lender or an Agent pursuant to Section 2.5 and (iv) pay Closing Costs relating to such Term Loan, and, to the extent such proceeds are not sufficient to pay in full all of the amounts described in the preceding clauses (i) through (iv), such proceeds will be applied first to the amounts described in clause (i), second to the amounts described in clause (ii), third to the amounts described in clause (iii) and fourth to the amounts described in clause (iv) until all of such proceeds have been disbursed. Any amount described in clauses (i) through (iv) of the preceding sentence not paid with the proceeds of a Term Loan will continue to be obligations of Borrower hereunder that mature on October 30, 1998 and will be payable in accordance with the terms of this Loan Agreement.

(c) No Working Capital. Borrower may not use any portion of any Loan for working capital, to provide working capital to any other Person or for distributions to officers or shareholders of Borrower or any other Person.

Section 2.8 Repayment of Principal.

(a) Generally. Borrower shall make principal payments on the dates and in the amounts listed in Schedule I attached to each Term Loan Note. The Loans are not revolving in nature and any amount repaid or prepaid may not be reborrowed and will reduce the amount of the relevant Commitment.

(b) Optional Prepayments. Borrower has the right on any date on which interest or principal is due under this Agreement to prepay any Term Loan

in whole or in part; provided, that (i) Borrower must give the Term Agent at least thirty (30) days' prior irrevocable notice of any such prepayment specifying the date of prepayment, the aggregate principal amount being prepaid and the specific Term Loan or Loans being prepaid and in what principal amounts, (ii) Borrower must also pay all accrued interest on all amounts being prepaid, (iii) any partial prepayment of a Term Loan must be in a minimum principal amount of two million Dollars ($2,000,000) and integral multiples of five hundred thousand Dollars ($500,000) in excess of such amount and (iv) Borrower must pay to the Term Lenders the prepayment fee described in Section 2.8(d). Borrower has no right to voluntarily prepay a

Construction/Acquisition Loan.

(c) Mandatory Repayments.

(i) The entire principal amount of all outstanding Loans will be immediately due and payable upon maturity (whether at stated maturity, by acceleration or otherwise).

(ii) Borrower and the Affiliates will use all Delay Damages with respect to a Project received prior to the Term Loan Conversion Date corresponding to such Project to pay Qualified Project Construction Costs or Qualified Project Acquisition Costs for such Project (or, if no further Qualified Project Construction Costs or Qualified Project Acquisition Costs are incurred by such Project, for any other Project) prior to the funding of any further Construction/Acquisition Loan. Borrower will apply all Delay Damages remaining after the payment of all Qualified Project Construction Costs and Qualified Project Acquisition Costs with respect to all Projects in the manner provided in Section 2.9(c).

(iii) Immediately upon receipt by Borrower or any Affiliate of any distribution of (A) Net Insurance Proceeds with respect to a Project and either (1) such Net Insurance Proceeds exceed the five percent (5%) threshold contained in Section 5.1(p)(vi) or (2) such Net Insurance Proceeds do not exceed the five percent (5%) threshold but are not permitted to be retained by Borrower for application in accordance with Section 5.1(p)(vi) or Borrower determines not to apply such Net Insurance Proceeds in a manner permitted by Section 5.1(p)(vi), or (B) the proceeds of any sale, transfer or disposition of any Project or any Project asset not specifically permitted by Section 5.2(b), Borrower will prepay the then-outstanding Loans relating to such Project in an amount equal to (x) the entire outstanding principal amount of the Construction/Acquisition Loans attributable to such Project as indicated on Schedule I to the Construction/Acquisition Loan Note or (y) the entire outstanding principal amount of the Term Loan Note relating to such Project, as the case may be,

and such prepayment will be applied in the manner provided in Section 2.9(c).

(iv) In addition, if any Project Document is amended or terminated in a manner that results in a cash payment of ten thousand Dollars ($10,000) or more to Borrower or any Affiliate, then Borrower will prepay the then-outstanding Loans relating to such Project in the amount of such proceeds and such prepayment shall be applied in the manner provided in Section 2.9(c).

(v) In addition, if Borrower or any Affiliate ceases to be a controlling person of any Project, then Borrower will prepay the then-outstanding Loans relating to such Project in an amount equal to (A) the entire outstanding principal amount of the Construction/Acquisition Loans attributable to such Project as indicated on Schedule I to the Construction/Acquisition Loan Note or (B) the entire outstanding principal amount of the Term Loan Note relating to such Project, as the case may be and such prepayment shall be applied in the manner provided in Section 2.9(c).

(d) Prepayment Fee. In connection with (i) any voluntary prepayment, (ii) any mandatory prepayment pursuant to Section 2.8(c)(iii), (iv) or (v), or (iii) any payment of a Loan resulting from any exercise of remedies by any Agent or Lender under any Credit Document following the occurrence of an Event of Default, Borrower shall pay to the applicable Agent a prepayment fee equal to the greater of the Reinvestment Loss Amount and the amount determined pursuant to the following table as liquidated damages and compensation for the costs of the Lenders (and the applicable Agent will distribute such prepayment

fee according to the Pro Rata Shares of the applicable Lenders):

Date of Prepayment	Penalty as a % of Prepaid Principal Amount
From the Closing Date or the applicable Term Loan Conversion Date, as the case may be, until the first anniversary thereof	2%
From the first to the second anniversary of the Closing Date or the applicable Term Loan Conversion Date, as the case may be	1%

Notwithstanding the foregoing, if the Reinvestment Loss Amount is negative, then such negative amount will be subtracted from the prepayment penalty calculated pursuant to the above table.

Section 2.9 Payments.

(a) Method of Payment.

(i) All payments by Borrower or any Affiliate under any Credit Document will be made in immediately available funds in U.S. Dollars to the applicable Agent at its main office in Stamford, Connecticut, or its New York Branch, as the case may be, for its account or for the accounts of the applicable Lenders, as the case may be. Borrower must give the applicable Agent telephone notice of any payment to be made hereunder by noon, New York, New York, time and all such payments must be received no later than 1:00 p.m., New York, New York, time, on the date due and must be made in full without defense, set-off or counterclaim of any kind and without any requirement of presentment, notice or demand. In the absence of timely notice and receipt, such payment shall be deemed to have been made on the next succeeding Business Day. Subject to the requirements of Section 2.3(c), whenever any payment to be made hereunder or under any other Credit Document is stated to be due on a day that is not a Business Day, the due date of such payment will be extended to the next succeeding Business Day and such extension of time will be included in the computation of such payment.

(ii) Notwithstanding the provisions of Section 2.9(a)(i) to the contrary, for so long as the Disbursement Agreement remains in full force and effect and provided sufficient funds are available for application in accordance with the terms and conditions hereof and thereof, Borrower authorizes and consents to make, and the Agents and the Lenders agree to receive, any and all payments required to be made hereunder through operation of the relevant provisions of the Disbursement Agreement.

(b) Currency of Payment. All payments under the Credit Documents must be made in U.S. Dollars and no payment obligation will be deemed to have been novated, satisfied or discharged by the tender of any currency other than U.S. Dollars or recovery under a judgment expressed in a currency other than U.S. Dollars unless such tender or recovery will result in the effective payment in full of such obligation in U.S. Dollars at the place indicated in Section 2.9(a). The amount, if any, by which any tender or recovery fails to result in such payment in full will remain due and payable hereunder as a separate

obligation of Borrower or the applicable Affiliate, unaffected by any action of Borrower or any Affiliate or judgment obtained.

(c) Application of Payments. All payments received by the Agents and the Lenders pursuant to Section 2.8(b) or (c) will be applied in the following order of priority:

(i) to the payment of all accrued interest on the Loan that is to be prepaid;

(ii) to the payment or reimbursement of all costs, expenses, Taxes and other amounts payable pursuant to Sections 2.10, 8.11 and 8.12;

(iii) to the payment of all fees payable pursuant to Section 2.5;

(iv) to the payment of the principal of the Loan designated for prepayment in the inverse order of maturity; and

(v) to the payment or reimbursement of all other amounts due to either Agent or any Lender hereunder or under any other Credit Document.

All payments applied to interest on or principal of any Loan will be paid to the Lenders in proportion to their respective Pro Rata Shares of such Loan. All payments applied to any other category of obligation set forth above will be paid to the various payees within such category in proportion to the respective amounts due to them.

Section 2.10 Increased Costs and Unavailability.

(a) Taxes.

(i) All payments made by Borrower and the Affiliates under the Credit Documents will be made free and clear of, and without deduction or withholding for, any present or future Tax, and Borrower will pay, either directly (with respect to Taxes of which Borrower has independent knowledge) or through reimbursement pursuant to Section 2.10(a)(ii), all Taxes in respect of payments under the Credit Documents other than Lender Income Taxes (collectively, "Reimbursable Taxes"), and all costs and liabilities incurred by each Agent and each Lender (each, an "Affected Party") in connection therewith.

(ii) Borrower will reimburse each Affected Party, on demand given pursuant to Section 2.10(g)(i), for any Reimbursable Tax paid by such Affected Party on an after-tax basis so that such Affected Party (A) receives the full amount payable to it under the Credit Documents and (B) is made whole after taking into account all income taxes it will owe on the reimbursement payment (assuming that such payment is subject to taxation at the highest marginal rate applicable to such Affected Party). Each Affected Party will have the absolute right to arrange its tax affairs in whatever manner it deems appropriate and no Affected Party will be obligated to claim any particular deduction, credit or other benefit.

(iii) If Borrower is prohibited or prevented (by Law or otherwise) from making any payment to an Affected Party required under Section 2.10(a)(ii), then the amount of the payment due to such Affected Party under the Credit Documents will be increased by the amount necessary to insure that such Affected Party will receive the full amount payable to it under the Credit Documents.

(iv) Within thirty (30) days after the date on which any Reimbursable Tax (of which Borrower has independent knowledge or has become aware of by a notice from an Affected Party delivered in accordance with Section 2.10(g)(i)) is due, Borrower will furnish to the applicable Affected Parties official receipts or notarized copies thereof evidencing payment of such Reimbursable Tax.

(v) Each of the Agents and the Lenders agrees to deliver to Borrower all forms and documents necessary to establish any

exemption from withholding for Taxes to which it is entitled. Any Person that becomes the successor holder of a Note will deliver the forms and documents required under this Section 2.10(a)(v).

(b) Capital Adequacy, Reserve Requirements. If a Lender determines that any Law enacted or effective after the Closing Date, any change in Law effective after the Closing Date, any change in the interpretation or administration of any Law effective after the Closing Date, or compliance with any directive, guideline or request from any Government Instrumentality effective after the Closing Date (whether or not having the force of Law) has the effect of (i) requiring an increase in the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender or (ii) imposing or modifying any reserve, special deposit, compulsory loan or similar requirement relating to any loan, extension of credit or other asset of, or any deposit with or other liability of, such Lender, and such Lender determines that such increase, imposition or modification is based, in whole or in part, upon its

obligations hereunder, Borrower will either (x) pay to such Lender an amount certified by such Lender to be the amount necessary to preserve the return on equity originally anticipated to be realized by such Lender as a result of the Loans made hereunder or (y) prepay the Loans made by such Lender in the aggregate amount certified by such Lender to be the amount necessary to prevent such Lender from being subject to such increase, imposition or modification. Any prepayment pursuant to this Section 2.10(b) will not cause Borrower to owe a prepayment fee pursuant to Section 2.8(d) or otherwise, but such prepayment shall be applied in the manner provided in Section 2.9(c).

(c) Increased Costs. Borrower will pay to each Lender, upon demand, such amounts as such Lender from time to time determines to be necessary to compensate such Lender for any cost incurred by such Lender or any reduction in the amount received or receivable by such Lender under the Credit Documents, resulting from any Law enacted or effective after the Closing Date, any change in Law effective after the Closing Date, any change in the interpretation or administration of any Law effective after the Closing Date, or compliance with any directive, guideline or request from any Government Instrumentality effective after the Closing Date (whether or not having the force of Law) that:

(i) subjects such Lender to any Tax (other than Lender Income Taxes or Taxes applicable either (A) solely to such Lender and no other Person or (B) solely to lenders active in the project finance market) or changes the basis of taxation of any amount payable to such Lender under the Credit Documents (other than with respect to Lender Income Taxes); or

(ii) imposes any other cost or condition affecting the cost of making a Loan or maintaining a Commitment; provided, that Borrower's obligation under this Section 2.10(c) shall not affect the obligations of the Affected Parties under Sections 2.10(g)(ii) and (iii).

(d) Funding Losses. Borrower will compensate each Lender, upon demand, for any loss, cost or liability (including interest paid by such Lender on funds borrowed to make, continue or convert a Loan and losses sustained in liquidating deposits and in the re-employment of funds) incurred as a result of:

(i) repayment (including repayment due to acceleration) of a Loan on a date other than the last day of an Interest Period (in the case of a Construction/Acquisition Loan) or the applicable Term Loan Maturity Date (in the case of a Term Loan);

(ii) failure of Borrower to borrow a Loan on the Funding Date therefor notified to the applicable Agent in a Notice of Borrowing; or

(iii) failure of Borrower to repay a Loan when due (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) or on the date specified therefor in a notice delivered pursuant to Section 2.8(b).

(e) Unavailability. In the event that on or before any Interest Rate Determination Date a Construction/Acquisition Lender determines that:

(i) U.S. Dollar deposits are not being generally offered in the London interbank market,

(ii) adequate and fair means do not exist for ascertaining interest rates by reference to LIBOR, or

(iii) LIBOR does not represent the cost to such Construction/Acquisition Lender of funding or maintaining a requested Construction/Acquisition Loan or effective pricing to such Construction/Acquisition Lender for a requested Construction/Acquisition Loan,

then such Construction/Acquisition Lender will give prompt notice of such fact to Borrower and the Construction/Acquisition Agent and Borrower and such Construction/Acquisition Lender will promptly enter into good-faith discussions to determine an alternate reference interest rate and margin that will as nearly as possible duplicate the economic terms of this Agreement and the monetary benefit to such Lender of the Loans made and to be made by it hereunder. If Borrower and such Construction/Acquisition Lender are, after a reasonable time, unable to agree on an alternate reference interest rate and margin, then, at the election of such Construction/Acquisition Lender, such Construction/Acquisition Lender's obligation to make Construction/Acquisition Loans will be immediately suspended.

(f) Illegality. If a Lender determines that any Law enacted or effective after the Closing Date, any change in Law effective after the Closing Date, any change in the interpretation or administration of any Law effective after the Closing Date, or compliance by such Lender with any directive, guideline or request (whether or not having the force of Law) of any Government Instrumentality effective after the Closing Date makes it unlawful or impossible for such Lender to fund or maintain Loans, then upon notice to Borrower by such Lender the obligation of such Lender to fund Loans will be suspended. In addition, the outstanding principal amount of such Lender's portion of all Loans, together with interest accrued thereon and all other amounts payable with respect thereto, will be repaid immediately upon demand of such Lender if such Lender determines that immediate repayment is required or, if such Lender determines that

immediate repayment is not required, in the case of Construction/Acquisition Loans, at the end of the respective Interest Periods of such Construction/Acquisition Loans. In the event of repayment of a Construction/Acquisition Loan pursuant to this Section 2.10(f) prior to the end of its Interest Period, Borrower will compensate the Construction/Acquisition Lenders for all losses, costs and liabilities described in Section 2.10(d). Any prepayment pursuant to this Section 2.10(f) will not cause Borrower to owe a prepayment fee pursuant to Section 2.8(d) or otherwise, but such prepayment shall be applied in the manner provided in Section 2.9(c). Notwithstanding the foregoing, prior to demanding prepayment of a Loan pursuant to this Section 2.10(f), each Lender affected by the conditions described in this Section 2.10(f) agrees to work in good faith with Borrower to restructure their respective obligations under this Agreement in such a manner as to preserve such Lender's economic return and to eliminate or minimize the need for a Loan to be prepaid.

(g) Notice and Mitigation; Return of Fees.

(i) Upon the occurrence of an event that entitles an Affected Party to compensation, reimbursement or indemnification pursuant to this Section 2.10, such Affected Party will give Borrower prompt notice of such event and, if applicable, the date compliance with this Section 2.10 is required.

(ii) Except as specifically provided in this Section 2.10, each Affected Party will take reasonable measures to avoid the need for, or reduce the amount of, compensation, reimbursement or indemnification pursuant to this Section 2.10; provided, that no Affected Party will be required to take any measure that, in its judgment, would be disadvantageous to it, contrary to its policies or inconsistent with its legal and regulatory position.

(iii) If any Tax or other charge of a type not generally imposed on lenders making loans of the types contemplated by this Agreement is imposed on payments to any Lender and Borrower is obligated hereunder to compensate such Lender for such Tax or other charge, Borrower may, within ten (10) days after receipt of notice of such Tax or other charge, request that such Lender assign its portion of the affected Loan or Loans to another Person acceptable to such Lender, and such Lender will use reasonable efforts to negotiate such an assignment.

(iv) The Term Agent hereby agrees with Borrower that, upon any demand for repayment of all of the Loans and payment of such Loans and other amounts in accordance with Section 2.10(f), if such

repayment occurs prior to the first anniversary of the Closing Date, the Term Agent will return to Borrower a portion of the total fees paid by Borrower to the Term Agent on the Closing Date pursuant to Section 2.5, such portion to be calculated by multiplying the aggregate amount of such fees by a fraction, not less than zero, the numerator of which is (x) 12 less (y) the number of whole or partial calendar months that have elapsed since the Closing Date and the denominator of which is 12. Notwithstanding the foregoing, if a repayment described in the preceding sentence occurs solely due to the gross negligence or willful misconduct of the Term Agent at any time during the term of this Agreement, then the Term Agent will return to Borrower a portion of the initial fee (but not the agency fee) paid by Borrower to the Term Agent on the Closing Date, such portion to be calculated by multiplying the amount of such initial fee by a fraction (not less than zero), the numerator of which is (x) 10 less (y) the number of whole or partial calendar years that have elapsed since the Closing Date and the denominator of which is 10.

ARTICLE III
CONDITIONS PRECEDENT

Section 3.1 Conditions Precedent to the Closing Date. The obligation of each Lender to make available its respective Commitment is subject to the satisfaction of each of the following conditions precedent:

(a) The Agents and the Lenders have received each of the following, in each case in form and substance satisfactory to the Agents and the Lenders:

(i) each Credit Document required by the Lenders in their sole discretion to be delivered on the Closing Date, executed and delivered by each of the parties thereto;

(ii) judgment lien, tax lien and UCC searches, and such other searches of the records of Government Instrumentalities as the Lenders may require, performed with respect to Borrower and the

Affiliates in all relevant jurisdictions;

(iii) the legal opinion of Borrower's Counsel in the form of Exhibit 3.1(a)(iii);

(iv) the legal opinion of Lenders' Counsel;

(v) such other legal opinions as the Agents or the Lenders may require;

(vi) certified copies of:

(A) the Organizational Documents of Guarantor, NEO, Borrower and the Affiliates;

(B) good standing certificates with respect to Guarantor, NEO, Borrower and the Affiliates dated no earlier than thirty (30) days before the Closing Date;

(C) incumbency certificates for the signatories of Guarantor, NEO, Borrower and the Affiliates and resolutions of Guarantor, NEO, Borrower and the Affiliates approving the Documents and the transactions contemplated thereby;

(D) unaudited financial statements of NEO for the fiscal year ended December 31, 1996 and all subsequent quarterly financial statements available on the Closing Date, audited financial statements of Borrower for the fiscal year ended December 31, 1996 and all subsequent quarterly financial statements available on the Closing Date, and pro forma balance sheets of the Affiliates as of the Closing Date; and

(E) all Project Documents in effect on the Closing Date and which are listed in Schedule I as having been executed;

(vii) certificates of officers of Guarantor, NEO, Borrower and each Affiliate certifying that:

(A) all Documents executed by such Person on or prior to the Closing Date are in full force and effect, such Person and, to the best knowledge of such Person after due inquiry, the Project Parties are in compliance with all covenants and provisions thereof, and no breach or event of default (or any event that would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document;

(B) all representations and warranties of such Person contained in the Documents are true, correct and complete;

(C) all financial statements and information relating to such Person provided to the Lenders, taken as a whole, are true, correct and complete; each balance sheet fairly presents the financial position of the Person to which it relates as at the date indicated and was prepared in accordance with GAAP except as specifically noted therein; no material adverse change in the condition or operation, financial or otherwise, of such Person has occurred since July 31, 1997; and the financial statements (including any notes thereto) provided to the Lenders disclose all liabilities, contingent or otherwise, of such Person; and

(D) no act, event or circumstance has occurred with respect to the Projects or such Person or, to the best knowledge of such Person after due inquiry, the Project Parties which has had or could have a Material Adverse Effect or a material adverse effect on the availability or pricing of financing for the Projects;

(viii) [RESERVED]

(ix) copies of all Required Approvals obtained on or prior to the Closing Date by or on behalf of Borrower or the Affiliates;

(x) a written report of the Engineer opining favorably, to the best of the Engineer's knowledge and except as otherwise noted in such report, on the relevant technical aspects of the Projects, except as otherwise noted in the report, including without limitation historical and projected Project availability and useful life, projected operation and maintenance costs (including, that the costs of operation and maintenance of the Projects, as detailed in the Closing Pro Forma are consistent with market practice), maintenance plans and schedules, terms of the Project Documents, Required Approvals, expected landfill gas production, expected availability, net capacity degradation (if any), the ability of the Projects to comply with all conditions contained in the Required Approvals, that there is no event or anticipated event that could reasonably be expected to cause any Project not to be completed by the date contemplated in the Construction and Draw Schedules and landfill gas collection efficiencies;

(xi) the favorable written report of the Energy Consultant confirming the energy price and capacity payment assumptions contained in the Closing Pro Forma; and

(xii) the favorable written report of the Insurance Consultant confirming compliance by Borrower and the Affiliates, except

as noted therein, with all requirements relating to Required Insurance contained in this Agreement.

(b) No act, event or circumstance has occurred (i) with respect to the Projects, Guarantor, NEO, Borrower or the Affiliates, (ii) in the international financial markets or (iii) otherwise which has had or could reasonably be expected to have a material adverse effect on the availability or pricing of financing for the Projects.

(c) All Taxes, fees and expenses required to be paid by Borrower and the Affiliates on or before the Closing Date have been paid.

(d) Guarantor, NEO, Borrower and the Affiliates have appointed the Process Agent to serve as process agent until the Term Loan Maturity Date and the Process Agent has accepted such appointment in writing, and a copy of such acceptance has been delivered to the Agent.

(e) The Lenders have prepared and analyzed the Closing Pro Forma incorporating the results of the Lenders' due diligence based on information provided by Borrower and the reports of the Lenders' counsel, the Engineer and the Energy Consultant and the terms and conditions imposed by the Project Documents, showing annual Net Operating Cash available for debt service on the Term Loans sufficient (in the Lenders' sole determination) to produce an annual debt service coverage ratio of at least 1.5 to 1 (on a per Project basis as well as for all Projects taken together) and for Borrower to comply with the financial covenants of this Agreement, including maintenance of the Minimum Coverage Ratio.

(f) The Organizational Documents of Borrower and the Affiliates contain bankruptcy-remote provisions satisfactory to the Lenders.

(g) All Documents executed by Guarantor, NEO, Borrower and the Affiliates on or prior to the Closing Date are in full force and effect, Guarantor, NEO, Borrower, the Affiliates and the Project Parties are in full compliance with all covenants and provisions thereof, and no breach or event of default (or any event that could become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document.

(h) All representations and warranties of Guarantor, NEO, Borrower and the Affiliates contained in the Documents are true, correct and complete.

(i) There is no pending or threatened litigation, investigation or other proceeding (i) relating to any Project (including without limitation relating to the release of any Hazardous Substance or any contingent liability of Borrower, the Affiliates, the Project Parties or the Projects in connection with the release of any Hazardous Substance) or (ii) that could materially adversely affect the condition (financial or otherwise) of Guarantor, NEO, Borrower, the Affiliates or the Project Parties or their ability to perform under the documents, other than the bankruptcy proceedings relating to the EPC Contractor of the Edgeboro Project and the pre-petition liens relating thereto.

(j) A First-Priority security interest in the Collateral that is the subject of the Security Documents in effect as of the Closing Date has been created and perfected, and will continue to be perfected, in favor of the Lenders in all relevant jurisdictions, and there are no Liens on the Collateral other than Permitted Liens. The Term Agent has received all items of Collateral in which a security interest is perfected by possession, including stock certificates and stock powers relating thereto.

(k) No Project has suffered a material loss (unless such Loss has been remedied to the satisfaction of the Lenders) or is subject to pending or threatened condemnation or appropriation proceedings.

(l) The operations of Borrower, the Projects and the Affiliates comply and will comply, in all respects deemed material by the Lenders (including without limitation that the Projects will be able to meet the financial and construction progress projections contained in the Closing Pro Forma), with all Applicable Laws and Required Approvals.

(m) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Agent or any Lender from entering into and performing its obligations under this Agreement.

Section 3.2 Conditions Precedent to the Funding of Each Construction/Acquisition Loan. The obligation of the Construction/Acquisition Lenders to fund any Construction/Acquisition Loan is subject to the satisfaction of each of the following conditions precedent:

(a) The Construction/Acquisition Agent and the Construction/Acquisition Lenders have received each of the following, in each case in form and substance satisfactory to the Construction/Acquisition Agent and the Construction/Acquisition Lenders:

(i) a Notice of Borrowing, with all attachments thereto, sent in compliance with Section 2.2(a)(i);

(ii) copies of all invoices, applications for payment, payment receipts and lien waivers and releases received from the EPC Contractor and other Project Parties of the Project that is the subject of the requested Loan and all major subcontractors as

reasonably requested by the Construction/Acquisition Agent;

(iii) a certificate of the Engineer certifying that, to the best of its knowledge after due inquiry and review:

(A) that all invoices, applications for payments, receipts, lien waivers and releases submitted by Borrowers in connection with the Notice of Borrowing with respect to such Loan are, genuine and correct and in conformity and compliance with the applicable Construction/Acquisition Budget, Construction and Draw Schedule and EPC Contract and with the requirements of the Credit Documents and are sufficient to document the services and materials for which the Loan is being requested;

(B) that construction of the Projects is on or ahead of the schedules contained in the Construction and Draw Schedules and that all Qualified Project Construction Expenses are consistent with the Construction and Draw Schedules. If project schedule slippages are anticipated, updated schedules with corrective action, or revised scheduled completion dates are provided, and update budget to reflect such changes;

(C) that sufficient funds remain available under the Construction Draw Schedules to complete the Projects;

(D) that Required Approvals capable of being obtained as of the Funding Date have been obtained and that other Required Approvals that are not possible to obtain as of such date are likely to be obtained as needed in the future in the opinion of the Engineer;

(E) that the Engineer is not aware of any event that has occurred or is anticipated to occur that could cause a Project not to be completed on or before the projected date contained in the Construction and Draw Schedules;

(F) with respect to the first Construction/Acquisition Loan requested for a Project, that each Action Item listed in Schedule III relating to the Project that is the

subject of the requested Construction/Acquisition Loan has been performed or accomplished to the Engineer's satisfaction;

(iv) copies of all Required Approvals obtained by or on behalf of Borrower, the Affiliates, the EPC Contractors or the Operators, and all Project Documents, to the extent not previously provided to the Lenders;

(v) with respect to the first Construction/Acquisition Loan requested for a Project, binders, certificates or other evidence indicating that the Lenders will immediately following the Funding Date of the requested Loan be named as (i) loss payee with respect to the property insurance and business interruption insurance policies relating to the Project that is the subject of the requested Loan and (ii) additional insureds on the general and umbrella liability insurance policies maintained by Borrower and the Affiliates, together with a letter from the Insurance Consultant certifying that the insurance maintained by Borrower and the Affiliates is adequate and consistent with industry practice;

(vi) (A) with respect to the first Construction/Acquisition Loan requested for a Project, a title report (with copies of all documents and instruments affecting title to such Site or Sites) and an ALTA prepaid policy of title insurance for the Site or Sites of the Project that is the subject of the requested Construction/Acquisition Loan issued by the Title Insurer in favor of the Lenders and insuring the First-Priority of the Lien of the Mortgage relating to such Site or Sites in an aggregate amount equal to the maximum aggregate principal amount of the Construction/Acquisition Loans anticipated to be made to such Project (as reflected in the Closing Pro Forma) (the "Title Policy"). The Title Policy shall be marked "premium paid," shall be issued subject only to Permitted Liens and shall contain modifications to the standard exceptions and such affirmative insurance and endorsements as the Construction/Acquisition Agent may require, and (B) with respect to any drawing other than the first Construction/Acquisition Loan requested for a Project, a continuation of title, pending disbursements endorsement or other suitable title endorsement issued by the Title Insurer for each Title Policy or Title Policies relating to the Project in respect of which such Construction/Acquisition Loan is requested;

(vii) an Environmental Review of the Site or Sites (consisting of a review of data from State and Federal environmental databases as reported by a third-party vendor, and any reports of non-

compliance obtained from State environmental staff) affirming or stating that, to the best knowledge of the Engineer after due inquiry and review:

(A) No material expenditure will need to be made by Borrower, the applicable Affiliates, or the Project for response to any release of a Hazardous Substance,

(B) None of Borrower, the applicable Affiliates, or the Project are subject to any material contingent liabilities in connection with the release of any Hazardous Substance,

(C) contacts with State environmental staff did not identify any non compliant conditions, and

(D) site visit observations did not identify areas of concern.

(viii) with respect to the first Construction/Acquisition Loan requested for a Project, one or more Mortgages, executed by the Affiliate that is the owner of the Project that is the subject of the requested Construction/Acquisition Loan in favor of the Construction/Acquisition Agent and the Term Agent granting a First-Priority Lien on the Site of the Project that is the subject of the requested Construction/Acquisition Loan, together with an opinion of counsel to Borrower reasonably acceptable to the Construction/Acquisition Agent confirming (A) the enforceability of such Mortgages, (B) that such Mortgages are in due form for filing with the appropriate Government Instrumentality, (C) that the Site may be used for the purpose of constructing and operating the Project Improvements in accordance with any applicable subdivision, zoning and other land-use Laws, and (D) otherwise in form and substance reasonably satisfactory to the Construction/Acquisition Lenders;

(ix) with respect to the first Construction/Acquisition Loan requested for a Project, certified copies of the Construction/Acquisition Budget, Construction and Draw Schedule and descriptive memorandum for the Project that is the

subject of the requested Construction/Acquisition Loan;

(x) certified copies of all Project Documents not previously delivered to the Construction/Acquisition Agent;

(xi) certificates of officers of Borrower and the Affiliate that owns the Project that is the subject of the requested

Construction/Acquisition Loan, duly executed as of the Funding Date, certifying that:

(A) all Documents executed by such Person on or prior to the Funding Date are in full force and effect, such Person and, to the best knowledge of such Person after due inquiry, the Project Parties, are in compliance with all covenants and provisions thereof, and no breach or event of default (including any Event of Default) (or any event that would become a breach or event of default with the giving of notice or the passage of time or both) has occurred and is continuing under any such Document; and

(B) all representations and warranties of such Person contained in the Documents are true, correct and complete;

(xii) with respect to the first Construction/Acquisition Loan requested for a Project, a site plan (the "Site Plan") for the Project that is the subject of the requested Construction/Acquisition Loan identifying the Site for such Project and showing (A) the location of all existing improvements and the intended locations of the improvements to be constructed thereon (collectively, the "Project Improvements") and (B) that the Project Improvements for such Project are or will be located within the boundaries of the Site for such Project;

(xiii) with respect to the first Construction/Acquisition Loan requested for a Project, all documents and instruments evidencing that the Affiliate that is the owner of the Project has valid and subsisting real property interests in and to the Site for the Project that is the subject of the requested Construction/Acquisition Loan (collectively, the "Real Property Documents");

(xiv) to the extent not listed above, all Credit Documents required by the Construction/Acquisition Lenders in their sole discretion to be delivered on the Funding Date, executed and delivered by each of the parties thereto; and

(xv) such other assurances, instruments or undertakings as the Construction/Acquisition Agent or any Construction/Acquisition Lender may reasonably request.

(b) Such Loan is in conformity with the Construction and Draw Schedule for such Project.

(c) The Project Documents executed by Borrower and the Affiliates on or prior to the Funding Date of the requested Loan include all agreements required for the acquisition, development, construction, ownership and operation, as appropriate, of the Project that is the subject of the requested Loan, other than those agreements that the Construction/Acquisition Lenders do not require to be in place on such Funding Date and that the Construction/Acquisition Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and such Project Documents conform in all material respects with the Closing Pro Forma and are sufficient to permit the Project to operate in a manner that will neither violate the Required Approvals or the manufacturer's normal operating parameters and such that the Project will be

able to achieve the net operating revenue projected in the Closing Pro Forma.

(d) All Documents executed by Guarantor, NEO, Borrower and the Affiliates on or prior to the Funding Date of the requested Loan are in full force and effect, Guarantor, NEO, Borrower, the Project Parties and the Affiliates are in compliance with all covenants and provisions thereof, and no breach or event of default (or any event that would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document.

(e) All representations and warranties of Guarantor, NEO, Borrower and the Affiliates contained in the Documents are true, correct and complete.

(f) No act, event or circumstance has occurred (i) with respect to the Projects, Guarantor, NEO, Borrower or the Affiliates, (ii) in the international financial markets or (iii) otherwise, including without limitation any amendment or any proposed amendment to permitting, licensing or other regulatory requirements or any Project Document, which has had or could have a Material Adverse Effect.

(g) There is no pending or threatened litigation, investigation or other proceeding (i) relating to any Project (including without limitation relating to the release of any Hazardous Substance or any contingent liability of Borrower, the Affiliates, the Project Parties or the Projects in connection with the release of any Hazardous Substance), (ii) that could materially adversely affect the condition (financial or otherwise) of Guarantor, NEO, Borrower and the Affiliates or (iii) that could materially adversely affect the ability of the Project Parties to perform under the Documents.

(h) All Required Approvals have been obtained except for those that are obtainable only at a later stage and which the Construction/Acquisition

Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and all obtained Required Approvals are in full force and effect, not subject to any onerous or unusual condition and satisfactory to the Construction/Acquisition Lenders in their sole discretion.

(i) All Required Insurance has been obtained, all Required Insurance is in full force and effect and is not subject to cancellation and no Person other than Guarantor, NEO, Borrower, the Affiliates and the Lenders has any right or interest in, to or under any Required Insurance other than pursuant to the Project Documents.

(j) A First-Priority security interest in the Collateral has been created and perfected, and will continue to be perfected, in favor of the Lenders in all relevant jurisdictions, and there are no Liens on the Collateral other than Permitted Liens.

(k) Borrower and the Affiliates have made all Equity Contributions required to be made at or before the date of such Loan and all of such Equity Contributions has been expended for Qualified Project Construction Costs or Qualified Project Acquisition Costs, as the case may be.

(l) No Project has suffered a material Loss (unless such Loss has been remedied to the satisfaction of the Construction/Acquisition Lenders) or is subject to pending or threatened condemnation or appropriation proceedings.

(m) The operations of Borrower, the Projects and the Affiliates comply and will comply, in all respects deemed material by the Construction/Acquisition Lenders (including without limitation that the Projects will be able to meet the projections contained in the Closing Pro

Forma), with all Applicable Laws and Required Approvals.

(n) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Construction/Acquisition Lender from making the requested Loan.

(o) Each condition precedent set forth in Schedule II relating to each Project that is the subject of a requested Construction/Acquisition Loan has been satisfied to the satisfaction of the Construction/Acquisition Agent and the Construction/Acquisition Lenders in consultation with the Engineer.

(p) The Construction/Acquisition Agent has received evidence satisfactory to it that any primary customer of each Project that is the subject of a requested Construction/Acquisition Loan, or any parent company thereof, has

qualified for debt financing and is able to draw on such debt financing on terms and in amounts that the Construction/Acquisition Agent deems sufficient in its sole discretion.

(q) All Taxes, fees and expenses required to be paid by Borrower and the Affiliates on or before the Funding Date have been paid.

(r) Each of the Real Property Documents pertaining to the Site or Sites of the Project that is the subject of the requested Construction/Acquisition Loan (or memoranda thereof), the Mortgages and the Financing Statements shall have been duly recorded, published, registered and filed (or arrangements for such recording, publishing, registering and filing shall have been made), in such manner and in such places as are necessary or appropriate to publish notice thereof and protect the validity and effectiveness thereof and to establish, create, perfect, preserve and protect the rights of the parties thereto and their respective successors and assigns, and all Taxes, fees and other charges in connection with such recording, publishing, registration and filing of such documents or any memoranda thereof and any financing statements shall have been paid, or caused to be paid, by Borrower.

(s) The Site for the Project that is the subject of the requested Construction/Acquisition Loan constitutes all the real property interests necessary to construct, maintain and operate such Project in accordance with its respective Project Documents.

Section 3.3 Conditions Precedent to each Term Loan Conversion Date. The obligation of the Term Lenders to fund any Term Loan is subject to the satisfaction of each of the following conditions precedent:

(a) The Term Agent and the Term Lenders have received each of the following, in each case in form and substance satisfactory to the Term Agent and the Term Lenders:

(i) a Notice of Borrowing sent in compliance with Section 2.2(c)(i);

(ii) the Term Note relating to such Term Loan, executed and delivered by Borrower;

(iii) a new lender's policy of title insurance, continuation of title or other suitable title endorsement (issued by the Title Insurer and including, without limitation, an updated survey endorsement) for each Title Policy or Title Policies relating to the Project in respect of which such Term Loan is requested) confirming

that the Mortgage(s) have a First-

Priority Lien on the Site securing one hundred percent (100%) of the maximum Aggregate Term Loan Commitment without any additional Liens (other than Permitted Liens);

(iv) an "as-built" survey of the Site or Sites of the Project that is the subject of the requested Term Loan showing (A) the location of the Project Improvements, (B) that the Project Improvements for each Project are located within the boundaries of the Site for such Project (without encroachments on any right-of-way, easement or other interest that could adversely affect the continued operation of such Project), (C) that such Site is not located in a flood zone (or, to the extent that any portion of such Site may be in a flood zone, delineating the portions thereof in such flood zone), and (D) all easements, encroachments and other survey matters required by the Term Agent. The "as-built" Survey shall be dated within 30 days of date of the requested Term Loan, be in form and substance satisfactory to the Term Agent, be prepared by licensed surveyors acceptable to the Term Agent, and be certified to the Term Agent and the Title Insurer;

(v) a legal opinion of Borrower's Counsel in form and substance satisfactory to the Term Agent;

(vi) the legal opinion of Lenders' Counsel;

(vii) such other legal opinions as the Term Lenders may request;

(viii) good standing certificates with respect to NRG, NEO, Borrower and the Affiliate that is the owner of the Project that is the subject of the requested Term Loan dated no earlier than thirty (30) days before the Term Loan Conversion Date;

(ix) certificates of officers of NRG, NEO, Borrower and the Affiliates corresponding to the Project that is the subject of the requested Term Loan certifying that:

(A) all Documents executed by such Person on or prior to the applicable Term Loan Conversion Date are in full force and effect, such Person and, to the best knowledge of such Person, after due inquiry, the Project Parties, are in compliance with all covenants and provisions thereof, and no breach or event of default (including an Event of Default) (or any event which would become a breach or event of default with the giving of notice or passage of

time or both) has occurred and is continuing under any such Document;

(B) all representations and warranties of such Person contained in the Documents are true, correct and complete in all material respects;

(C) there has occurred no material adverse change in the financial position of such Person since the date of the most recent balance sheet of such Person provided to the Term Lenders; and

(D) no act, event or circumstance has occurred with respect to any Project, such Person or, to the best of such Person's knowledge after due inquiry, any Project Party which has had or could have a Material Adverse Effect;

(x) to the best of the Engineer's knowledge, and except as otherwise noted in its report, the report of the Engineer certifying that, as appropriate,

(A) the Project that is the subject of the requested Term Loan has been completed in accordance with the corresponding EPC Contract (other than Punch List Items, the completion of which will not interfere with the commercial operation of the Project or cause it to operate at levels material different than those forming the basis of the projections in the Closing Pro Forma),

(B) all tests required for Final Performance Acceptance under the corresponding EPC Contract have been successfully completed,

(C) with respect to each Project, has commenced Commercial Operation under the corresponding Power Purchase Agreement and/or Gas Sale Agreement,

(D) that Performance Tests for each Project's Gasco and Genco are completed in accordance with the approved test program,

(E) the Project appears to be capable of achieving the operating revenue as projected in the Closing Pro Forma,

(F) all Permit Approvals required to commission and operate the Project are in full force and effect, and

(G) all necessary Fuel and utility services are available for the Project,

(H) with respect to each Term Loan Conversion requested for a Project, that each Action Item relating to the Project that is the subject of the requested term loan has been performed or accomplished to the Engineer's satisfaction.

(xi) an Operating Plan and Budget for the Project that is the subject of the requested Term Loan for the current calendar year and the subsequent calendar year;

(xii) copies of all Required Approvals obtained by or on behalf of Borrower, the Affiliates, the EPC Contractors or the Operators and certified copies of all Project Documents to the extent not previously provided to the Term Lenders; and

(xiii) such other assurances, instruments or undertakings as the Term Agent or any Term Lender may reasonably request.

(b) The Project Documents (including the Operation and Maintenance Agreements) executed by Borrower and the Affiliates on or prior to the Term Loan Conversion Date include all agreements required for the ownership and operation of the Project that is the subject of the requested Term Loan (including without limitation that the operation and maintenance expenses of the Project conform with the projection of the operation and maintenance expenses contained in the Closing Pro Forma) other than those agreements that the Term Lenders do not require to be in place on the Term Loan Conversion Date and which the Term Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required.

(c) All Documents executed by NRG, NEO, Borrower and the Affiliates on or prior to the Term Loan Conversion Date are in full force and effect, NRG, NEO, Borrower, the Affiliates and all Project Parties are in compliance with all covenants and provisions thereof, and no breach or event of default (or any event which would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document.

(d) All representations and warranties of NRG, NEO, Borrower and the Affiliates contained in the Documents are true, correct and complete.

(e) No act, event or circumstance has occurred (i) with respect to the Projects, Borrower or the Affiliates, (ii) in the international financial markets or (iii) otherwise, including without limitation any amendment or any proposed amendment to permitting, licensing or other regulatory requirements or any Project Document, which has had or could reasonably be expected to have a Material Adverse Effect.

(f) There is no pending or threatened litigation, investigation or other proceeding (i) relating to any Project or (ii) that could materially adversely affect the condition (financial or otherwise) of NRG, NEO, Borrower or the Affiliates or (iii) that could materially adversely affect the ability of the Project Parties to perform under the Documents.

(g) All Required Approvals have been obtained except for those which are obtainable only at a later stage and which the Term Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtained in the ordinary course of business prior to the time required, all Required Approvals obtained are in full force and effect and not subject to any onerous or unusual condition, and the Term Agent shall have received confirmation of the accuracy of this representation from counsel to Borrower or an independent engineer acceptable to the Term Agent.

(h) All Required Insurance has been obtained and all Required Insurance is in full force and effect and not subject to cancellation and no Person other than Guarantor, NEO, Borrower, the Affiliates and the Lenders has any right or interest in, to or under any Required Insurance other than pursuant to the Project Documents.

(i) A First-Priority security interest in the Collateral has been created and perfected, and will continue to be perfected, in favor of the Lenders in all relevant jurisdictions, and there are no Liens on the Collateral other than Permitted Liens.

(j) No Project has suffered a material loss (unless such Loss has been remedied to the satisfaction of the Term Lenders) or is subject to pending or threatened condemnation or appropriation proceedings.

(k) All Construction/Acquisition Loans that correspond to the Project that is the subject of the requested Term Loan, together with all accrued and unpaid interest thereon and all other amounts due and payable under the

Credit Documents, will be paid concurrently with the funding of the requested Term Loan.

(l) The Debt Service Reserve Fund will be fully funded at or prior to the funding of the requested Term Loan.

(m) All Qualified Project Construction Costs or Qualified Project Acquisition Costs of the Project that is the subject of the requested Term Loan have been paid in full, or an amount deemed sufficient by the Engineer to pay all unpaid costs has been deposited in an account under the control of the Term Agent for such purpose.

(n) Borrower and the Affiliates have made all Equity Contributions required to be made on or before the Term Loan Conversion Date.

(o) The Project that is the subject of the requested Term Loan has achieved Final Performance Acceptance under the corresponding EPC Contract and commenced Commercial Operation under the corresponding Power Purchase Agreement and/or the Gas Sales Agreement.

(p) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Term Lender from making the requested Term Loan.

(q) The Organizational Documents of Borrower and the Affiliates contain bankruptcy-remote provisions satisfactory to the Term Lenders.

(r) Each condition precedent set forth in Schedule II relating to the Project that is the subject of the requested Term Loan has been satisfied to the satisfaction of the Term Agents and the Term Lenders.

(s) The Term Agent has received evidence satisfactory to it that any primary customer of each Project that is the subject of a requested Term Loan, or any parent company thereof, has qualified for debt financing and is able to draw on such debt financing on terms and in amounts that the Term Agent deems sufficient in its sole discretion.

(t) All Taxes, fees and expenses required to be paid by Borrower or any Affiliate on or before the Term Loan Conversion Date have been paid.

(u) The operations of Borrower, the Projects and the Affiliates comply and will comply, in all respects deemed material by the Term Lenders (including without limitation that the Projects will be able to meet the projections

contained in the Closing Pro Forma), with all Applicable Laws and Required Approvals.

(v) If appropriate, the conditions precedent set forth in Section 3.4 have been satisfied.

Section 3.4 Additional Conditions Precedent for Certain Term Loans. If Borrower requests a Term Loan for a Project that was not previously the subject of a Construction/Acquisition Loan, then the conditions precedent set forth in Sections 3.2(a)(iv), (v), (vi), (vii), (viii), (ix) and (xv) shall also be satisfied to the satisfaction of the Term Agent and the Term Lenders.

Section 3.5 No Waiver. The failure of the Agent or any Lender to require satisfaction of any condition precedent set forth in this Article III, or the funding of any Loan despite the failure of Borrower to satisfy any such condition precedent, will not constitute a waiver of such condition precedent unless the Lenders so state in writing. A waiver by the Lenders of any condition precedent in connection with the funding of any Loan will not affect the applicability of such condition precedent to the funding of subsequent Loans.

Section 3.6 Location of Closings. The various closings of the loan transactions contemplated hereunder shall take place at the office of the Lenders' Counsel in Washington, D.C., or the offices of the Term Agent in Stamford, Connecticut, at the election of the Agents.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties. Borrower represents and warrants to the Agents and the Lenders on and as of each date on which such representations and warranties are required to be made pursuant to Article III as follows:

(a) Existence; Authority. It is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware and is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties. It has all necessary rights, franchises and privileges and full power and authority to execute, deliver and perform the Documents to which it is a party, to design, construct, own and operate the Projects and to conduct its business as currently conducted and as proposed to be conducted. It has taken all necessary action to execute, deliver and perform the Documents to which it is a party and such

Documents have been duly executed and delivered by it and constitute the legally valid and binding obligations of it, enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws relating to or limiting creditors' rights generally or by general principles of equity.

(b) Ownership and Affiliates. Each Affiliate is a corporation or limited liability company, as the case may be, duly organized, validly existing and in good standing under the Laws of the State of its organization and is duly qualified to do business as a foreign corporation or limited liability company and is in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties. Each Affiliate has all necessary rights, franchises and privileges and full power and authority to execute, deliver and perform the Documents to which it is a party and to conduct its business as currently conducted and as proposed to be conducted. Each Affiliate has taken all necessary action to execute, deliver and perform the Documents to which it is a party and such Documents have been duly executed and delivered by such Affiliate and constitute the legally valid and binding obligations of such Affiliate, enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws relating to or limiting creditors' rights generally or by general principles of equity.

(c) Capitalization. The respective ownership interests in Borrower and the Affiliates are as set forth in the Organizational Documents provided to the Agents and the Lenders pursuant to Article III and as described in the organizational charts attached as Exhibit 4.1(c). All of such ownership interests are duly and validly issued and are subject to no Liens other than the Liens in favor of the Agents and the Lenders created by the Pledge Agreements. There are no other ownership or equity interests in Borrower or the Affiliates, rights to acquire or subscribe for any such interests or securities or instruments convertible into or exchangeable or exercisable for any such interests.

(d) Business and Contractual Obligations. Borrower and each Project Owner is a single purpose entity formed for the sole purpose of acquiring or designing and constructing, owning and operating, directly or indirectly, landfill gas projects and performing its obligations under the Documents. None of Borrower or the Affiliates has engaged in any business or activity or incurred any liability or expense to any Person except for those contemplated by the Documents. Except for the Documents, none of Borrower or the Affiliates is party or subject to any Contractual Obligation with respect to any of the Collateral. None of Borrower or the Affiliates has assumed, guaranteed, endorsed or otherwise become directly or contingently liable for (including, without limitation,

liable by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) the indebtedness or obligations of any other Person except pursuant to a Credit Document. None of Borrower or the Affiliates has made any loan or advance to any Person or owns or holds the capital stock, securities, debt (other than debt subject to the Subordination Agreement or otherwise explicitly subordinated to the Loans), assets or obligations of, or any interest in, any Person (other than its ownership interest in another Affiliate).

(e) Name, Address and Records. The name of Borrower set forth in the first paragraph of this Agreement is the true, correct and complete name of Borrower, and Borrower does not conduct business under any other name or tradestyle. The legal address of Borrower and the address of the principal place of business and chief executive office of Borrower is 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota, 55403-2445. Borrower keeps all of its records and all documents evidencing or relating to its Contractual Obligations at such address. Borrower has no property or other assets at any other address other than as listed in the Security Agreements.

(f) No Violations, Defaults or Liens.

(i) None of Borrower or the Affiliates (A) is in violation of any Law (including Environmental Laws), (B) is in violation of or default under its Organizational Documents or (C) is in violation of or default under any Document or other Contractual Obligation. None of Borrower or the Affiliates is party to or affected by any charter, bylaw, partnership agreement or other constituent document or any Contractual Obligation that could have a Material Adverse Effect.

(ii) To the best knowledge of Borrower, except as previously disclosed to the Agents, no Project Party (A) is in violation of any Law (including Environmental Laws), (B) is in violation of or default under its charter, bylaws, partnership agreement or other constituent documents or (C) is in violation of or default under any Project Document or any other Contractual Obligation.

(iii) No Event of Default has occurred and is continuing and no material Loss has occurred that has not been cured to the satisfaction of the Lenders.

(iv) Borrower and the Affiliates, and NEO with respect to the Miramar Project, are the legal and beneficial owners of, and have good, marketable and valid title to, the Collateral. None of the Collateral is subject to any Lien other than Permitted Liens. No effective mortgage,

deed of trust, financing statement, security agreement or other instrument similar in effect which is not a Security Document is on file or of record in the office of any Government Instrumentality with respect to any Collateral other than with respect to Permitted Liens.

(v) The execution, delivery and performance of the Documents to which any of Borrower and the Affiliates is a party do not and will not (A) violate any Law (including Environmental Laws), (B) violate, or result in a default under, the Organizational Documents of such Person, (C) violate, or result in a default under, any Document or any other Contractual Obligation subject to the obtaining of consents to assignment from certain Project Parties, (D) result in or require the creation or imposition of any Lien (other than Permitted Liens) on the Collateral or other property of Borrower and the Affiliates or (E) require an Approval from any Person that has not been obtained.

(g) Required Approvals. All Required Approvals obtained on or before the date hereof are listed and described in Schedule 4.1(g) and such list and descriptions are true, correct and complete. Borrower and the Affiliates have obtained all Required Approvals required to be obtained at or prior to the time of this representation and warranty in order for the Projects and Borrower, the Affiliates, the Agents and the Lenders and their respective activities to be in compliance with Applicable Law, and none of Borrower or the Affiliates has any reason to believe that any of the Required Approvals not yet obtained cannot or will not be obtained in the normal course of business as and when required and without significant expense. Borrower has provided the Agents and the Lenders with a true, correct and complete copy of each Required Approval required to be obtained at or prior to the time of this representation and warranty. All Required Approvals obtained by Borrower and the Affiliates (i) are validly issued, (ii) are in full force and effect, (iii) are free from any condition or requirement that cannot be met or that could have an adverse effect on the Projects and (iv) are not the subject of a current challenge and are not subject to any onerous or unusual conditions. No proceeding or other action is pending or threatened with respect to any Required Approval and all information provided in connection with each Required Approval was on the date provided and is on the date hereof true, correct and complete. The Agents will be entitled, without undue expense or delay, to the benefit of each Required Approval upon the exercise of their remedies under the Security Documents.

(h) Project Documents.

(i) The Project Documents include all agreements required for the acquisition, design, construction, ownership, operation and

maintenance of the Projects as contemplated by the Documents. Except for Project Documents which are obtainable only at a later stage and which will be obtainable in the ordinary course of business prior to the time required, all Project Documents have been duly and validly executed and delivered by the parties thereto, are in full force and effect and have not been amended, modified, supplemented or terminated. The copies of all Project Documents provided to the Agents and the Lenders by Borrower are true, correct and complete. Borrower and the Affiliates have enforceable agreements or other satisfactory arrangements that ensure the availability, on commercially reasonable terms, of all utilities, transportation, facilities, infrastructure, interconnections, pipelines, materials and services necessary for the acquisition, design, construction, ownership, operation and maintenance of the Projects as contemplated by the Documents.

(ii) The Projects, if acquired or constructed and operated in accordance with the Project Documents, will comply with all Applicable Laws, all Required Approvals and prudent utility practices.

(iii) The legal descriptions of the Sites set forth in Exhibit 4.1(h)(iii) are true and correct. The Affiliates have good title to all easements and other property interests necessary for the acquisition, design, construction, ownership, operation and maintenance of the Projects as contemplated by the Documents, including all rights of access, ingress, egress and interconnection.

(iv) Borrower is not aware of any existing fact or circumstance that would prevent the conversion of all Construction/Acquisition Loans to Term Loans in accordance with this Agreement on or before October 30, 1998.

(i) Patents. Borrower and the Affiliates own, or are licensed to use, all patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how and

processes used in, to be used in or necessary for the acquisition, design, construction, ownership or operation of the Projects or for the current or proposed conduct of their businesses. The use of such patents, trademarks, trade names, tradestyles, copyrights, technology, know-how and processes by Borrower and the Affiliates does not and will not injure or infringe upon the rights of any Person. Borrower and the Affiliates have obtained all required licenses for and consents to the transactions contemplated by the Documents from all Persons with rights in or to any of such patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how or processes.

(j) Taxes. Borrower and each Affiliate have filed in a timely manner or after having obtained an extension all Tax returns required by Law and have paid when due all Taxes imposed on them or on their respective properties, other than Taxes being contested in good faith by appropriate proceedings with proper reserves established in accordance with GAAP.

(k) Financial Statements.

(i) All financial statements of Borrower and the Affiliates (as well as all notes and schedules thereto) furnished to the Agents and the Lenders are true, complete and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with GAAP (except as otherwise stated therein) and show all liabilities, direct and contingent, of the Person indicated required to be shown under GAAP. Each balance sheet fairly presents the financial condition of the Person indicated as at the dates thereof, and each profit and loss and surplus (deficit) statement fairly presents the results of the operations of the Person indicated for the periods indicated. Except with respect to matters previously disclosed to the Agents, there has been no material adverse change in the business, condition or operations (financial or otherwise) of Borrower or any Affiliate since July 31, 1997, and Borrower knows of no reasonable basis for the assertion against it or any Affiliate of any obligation or liability that is not fully reflected in the financial statements furnished to the Agents and the Lenders.

(ii) The Pro Forma Balance Sheets for Borrower and the Affiliates are true, correct and complete in all material respects and fairly present the information contained therein as at the Closing Date and Borrower's or the applicable Affiliate's good faith estimate of the information contained therein as at the date of such Balance Sheets. None of Borrower or the Affiliates has any material liability, contingent or otherwise, including any liability for Taxes, or any unusual forward or long-term commitment which is not disclosed by, or reserved against in, the Pro Forma Balance Sheets or in the notes thereto which under GAAP is of a nature and an amount required to be so disclosed or reserved. There are no unrealized or anticipated losses from any unfavorable commitments of Borrower or the Affiliates that could reasonably be expected to have a material adverse effect on the business, condition or operations (financial or otherwise) of Borrower or such Affiliate.

(l) Construction/Acquisition Budgets. Each Construction/Acquisition Budget (i) has been prepared with due care, (ii) is complete in all material respects and fairly presents Borrower's good faith expectations as at the date of such document as to the matters covered thereby, (iii) is based on reasonable assumptions as to the factual and legal matters material to the estimates therein and (iv) is consistent with the Documents. The Construction/Acquisition Budgets accurately specify and describe all Qualified Project Construction Costs and Qualified Project Acquisition Costs.

(m) No Proceedings. Except with respect to matters

previously disclosed to the Agents, there is no pending or threatened action, suit, litigation, investigation, arbitration or other proceeding involving or affecting Borrower, any Affiliate or any of their respective properties or assets or, to the best knowledge of Borrower after due inquiry, any Project Party or any of their respective properties or assets, before any Government Instrumentality which could reasonably be expected to have a Material Adverse Effect. None of Borrower, the Affiliates or any of their respective properties or assets or, to the best knowledge of Borrower after due inquiry, any Project Party or any of their respective properties or assets, is subject to any order, writ or injunction which prohibits, enjoins or limits any aspect of the transactions contemplated by the Documents or which could reasonably be expected to have a Material Adverse Effect.

(n) No Broker's Fees. Borrower has no obligation (direct, indirect, contingent or otherwise) to pay any fee, commission or compensation to any broker, finder or intermediary with respect to or as a result of any transaction contemplated by the Documents.

(o) Environmental Matters. The Projects, Borrower, the Affiliates and, to the best knowledge of Borrower after due inquiry, the Project Parties (in respect of their obligations under the Documents) are in compliance with all Environmental Laws. None of Borrower, any Affiliate, and, to the best knowledge of Borrower after due inquiry, any Project Party has transported any Hazardous Substance to or from the Projects or used, generated, manufactured, handled, processed, stored, released, transported, removed, disposed of or cleaned up any Hazardous Substance on, from, under or about the Projects in violation of any Environmental Law, and there has occurred no release or threatened release of any Hazardous Substance on, under, onto, adjacent to or from the Projects in violation of any Environmental Law. There are no past, current, pending or threatened Environmental Claims in any way relating to Borrower, any Affiliate, the Projects or, to the best knowledge of Borrower after due inquiry, any Project Party.

(p) No Adverse Events. No portion of any Project or Site is subject to a pending or threatened condemnation or appropriation proceeding that could reasonably be expected to have a Material Adverse Effect.

(q) Public Utility Status.

(i) None of Borrower or the Affiliates is, nor by reason of the ownership or operation of any Project or any other transaction contemplated by the Documents will be, subject to financial, organizational or rate regulation as an "electric utility," "electric utility company," "electric corporation," "electrical company," "public utility," "public service corporation," "gas utility," "natural gas company" (transporting gas in interstate commerce), "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity under any Law.

(ii) None of the Agents or the Lenders will, solely by reason of (A) the ownership or operation of the Projects by the Affiliates, (B) the Loans, (C) the Liens of the Security Documents or (D) any other transaction or relationship contemplated by the Documents, be deemed by any Government Instrumentality to be, or to be subject to regulation as, an "electric utility," "electric utility company," "electric corporation," "electrical company," "public utility," "natural gas company" (transporting gas in interstate commerce), "gas utility," "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity, or a subsidiary or affiliate of any of the foregoing, under any Law.

(r) ERISA. None of Borrower or the ERISA Affiliates of Borrower sponsors, maintains, administers, contributes to, participates in or has any obligation to contribute to or any liability under any Plan.

(s) Labor Matters. There are no collective bargaining agreements or Multiemployer Plans covering any employees of Borrower or the Affiliates and none of Borrower, the Affiliates or, to the best knowledge of Borrower, any Project Party has experienced any strike, walkout, work stoppage or other labor action or disturbance during the past five years.

(t) Investment Company Act. None of Borrower or the Affiliates is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(u) Use of Proceeds.

(i) The proceeds of the Loans have been and will be used only for the purposes described in Section 2.7 and in accordance with the requirements and conditions of this Agreement.

(ii) Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U or X issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will be used, directly or indirectly, to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock.

(iii) No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(v) Bank Accounts. Borrower and the Affiliates do not maintain any account or deposit with any bank or other depository institution other than the accounts created under the Disbursement Agreement.

(w) Enforceability; No Immunity.

(i) The descriptions of the Collateral contained in the Security Documents are true, correct and complete and are sufficient to describe the Collateral and to create, attach and perfect the Liens intended to be created by the Security Documents. All necessary and appropriate deliveries, notices, recordings, filings and registrations have been effected to perfect First-Priority Liens on the Collateral in favor of the Term Agent as agent for the Lenders in all relevant jurisdictions, and the Term Agent as agent for the Lenders has and will continue to have until the Lenders have been paid in full and released their Liens duly and validly created, attached, perfected and enforceable First-Priority Liens on the Collateral in all relevant jurisdictions.

(ii) None of Borrower or the Affiliates, nor any of their respective properties, has any immunity from the jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise).

(x) Full Disclosure. No information, exhibit or report furnished to the Agents and the Lenders by Borrower or the Affiliates contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading.

(y) Insurance. Each of Borrower and the Affiliates is in compliance, to the extent applicable to it, with all requirements set forth in the Documents to maintain insurance, including Required Insurance.

Section 4.2 Survival. The representations and warranties of Borrower and the Affiliates contained in the Documents or made by Borrower or

any Affiliate in any certificate, notice or report delivered pursuant to any Document will survive the Closing Date, the making and repayment of the Loans and any transfer or assignment of Notes.

ARTICLE V
COVENANTS

Section 5.1 Affirmative Covenants. Each Borrower covenants and agrees that, for so long as any Lender has any Commitment hereunder and until the indefeasible payment in full of the Notes and all amounts payable by Borrower and the Affiliates under the Credit Documents, it will perform and observe each of the following covenants, unless (and then only to the extent) compliance with such covenant has been waived pursuant to Section 8.5:

(a) Existence. It will preserve and maintain its corporate existence, rights, franchises and privileges and remain in good standing in the jurisdiction of its incorporation, and qualify and remain qualified as a foreign corporation in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties.

(b) Affiliates. It will cause each Affiliate to preserve and maintain its corporate or limited liability company existence, rights, franchises and privileges and to remain in good standing in the jurisdiction of its incorporation or formation, and to qualify and remain qualified as a foreign corporation or limited liability company in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties.

(c) Compliance with Laws, Approvals and Obligations. It will, and will cause the Affiliates to, comply with, and will cause the Projects to be acquired, constructed and operated safely and in compliance with, all Applicable Laws, all Required Approvals, the Documents, its and their other Contractual Obligations and prudent utility practices. It will, and will cause the Affiliates to, perform its and their obligations under the Documents and each of its other Contractual Obligations and will diligently enforce all of its and their rights under the Project Documents and under all guarantees, warranties and indemnities in its

and their favor or relating to the Projects or any component thereof. It will, and will cause each Affiliate to, satisfy before the same become delinquent all Claims (including all Claims for labor, services, materials and supplies and other amounts due under its and their Contractual Obligations) other than Claims being contested in good faith by appropriate proceedings with proper reserves established which do not result in the imposition of a Lien prohibited by Section 5.2(f). It will, and will cause each Affiliate to, obtain and maintain in full force and effect all Required Approvals required from time to time and at any time for the execution, delivery, performance, admission into evidence or enforcement of the Documents or the acquisition, development, construction, ownership or operation of the Projects as contemplated under the Documents. It will, and will cause each Affiliate to, furnish the Agents and the Lenders with true, correct and complete copies of all Required Approvals upon receipt thereof.

(d) Title. It will cause the Affiliates to maintain good and marketable title to the Projects and it will, and will cause the Affiliates to, maintain good and marketable title to the other Collateral and warrant and defend the title to the Projects and the other Collateral against all Claims that do not constitute Permitted Liens.

(e) Collateral. It will, and will cause each Affiliate to, take all actions necessary to insure that the Term Agent has and continues to have in all relevant jurisdictions duly and validly created, attached, perfected and enforceable First-Priority Liens on the Collateral (including

after-acquired Collateral). It will, and will cause each Affiliate to, deliver possession of any Collateral to the Term Agent or its designated agent immediately upon acquiring rights therein to the extent the Term Agent is required to perfect its interest in such Collateral by taking possession thereof. It will also maintain the title insurance policies delivered to the Agents pursuant to Article III.

(f) Construction.

(i) It will cause the Projects to be acquired, constructed and completed in accordance with the Plans and Specifications, the Construction/Acquisition Budgets and the Construction and Draw Schedules. Only new, first-quality components will be used in constructing and equipping the Projects except as may be otherwise agreed by the Construction/Acquisition Agent and the Term Agent in consultation with the Engineer. The Projects will be constructed entirely on the Sites and in a manner so as not to injure or encroach upon the property or rights of any other Person. All Punch List Items for a Project will be completed, to the satisfaction of the Engineer, within ninety (90) days after the Term Loan Conversion Date corresponding to such Project.

(ii) It will give the Construction/Acquisition Agent and the Engineer at least ten (10) Business Days' prior written notice of each test to be conducted under each EPC Contract, Power Purchase Agreement or Gas Sales Agreement, and the Construction/Acquisition Agent, the Engineer and their respective agents and representatives will be afforded the opportunity to observe and verify each such test. Completion will not be deemed to have been achieved until the Engineer determines that it has been achieved. It will give the Agents and the Engineer at least ten (10) Business Days' prior written notice of the occurrence of Commercial Operation of any Project.

(iii) It will cause each Construction/Acquisition Loan to be paid in accordance with this Agreement not later than October 30, 1998.

(g) Maintenance and Operation. It will maintain and preserve, and cause the Affiliates, the EPC Contractors and the Operators to maintain and preserve, the Projects and all of its and their other properties in good working order and condition, ordinary wear and tear excepted. In addition, it will cause the Affiliates to take all reasonable steps necessary to maintain gas production at levels consistent with those assumed, in the aggregate, in the Closing Pro Forma. Prior to the Term Loan Conversion Date with respect to any Project, it will develop an overhaul, maintenance and repair plan with respect to such Project for the period from the applicable Term Loan Conversion Date through the Term Loan Maturity Date, which must be approved by the Engineer and the Term Agent. After such approval, it will, and will cause the Affiliates to, fully comply with such overhaul, maintenance and repair plan. It will, and will cause the Affiliates to, comply with all warranties and maintenance recommendations and requirements of manufacturers and vendors of component parts of the Projects and will make all repairs, alterations, additions and replacements necessary for the Projects (i) to operate safely and to meet the requirements of all Applicable Laws, all Required Approvals, the Documents, the other Contractual Obligations of Borrower and the Affiliates and prudent utility practices and (ii) to operate at the operating levels set forth in the Closing Pro Forma. It will, and will cause the Affiliates to, promptly correct any structural or other defect in a Project or any deviation from the Plans and Specifications. It will, and will cause the Affiliates to, maintain appropriate spare parts, inventories and redundancies.

(h) Operating Plans and Budgets. At least sixty (60) days prior to each January 1 occurring after the applicable Term Loan Conversion Date, it will submit to the Term Agent for approval a proposed

Operating Plan and Budget for each Project for the three Operating Years commencing on each such January 1, together with a reconciliation of actual expenses versus those projected in the previously delivered Operating Plan and Budget. The Term Agent will have the

right to request revisions to each proposed Operating Plan and Budget, and after an Operating Plan and Budget has been finalized and approved by the Term Agent, it will, and will cause the Affiliates to, follow and comply with such Operating Plan and Budget in all particulars. It will have the right to revise any Operating Plan and Budget with the prior written approval of the Term Agent. Once approved by the Term Agent, an Operating Plan and Budget or a revised Operating Plan and Budget will supersede all prior Operating Plans and Budgets and will continue in effect until a subsequent Operating Plan and Budget has been approved by the Term Agent.

(i) Patents. It will, and will cause the Affiliates to, obtain and maintain in full force and effect all patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how and processes to be used in or necessary for the design, construction, ownership and operation of the Projects and for the current and proposed conduct of its and their businesses, and in its and their use thereof it will, and will cause the Affiliates to, obtain all required licenses and consents and not injure or infringe upon the property or rights of any Person.

(j) Taxes. It will, and will cause the Affiliates to, file all Tax returns required by Law in a timely manner (including after having obtained an extension) and will, and will cause the Affiliates to, pay before the same become delinquent all Taxes imposed upon them or upon their respective properties, other than Taxes being contested in good faith by appropriate proceedings with proper reserves established which do not result in the imposition of a Lien prohibited by Section 5.2(f).

(k) Records and Inspection Rights. It will keep and maintain, and will cause the Affiliates, the EPC Contractors and the Operators to keep and maintain, true, correct and complete records and books of account, in which complete entries will be made in accordance with GAAP and Applicable Law, reflecting all financial transactions of the Projects, Borrower, the Affiliates, the EPC Contractors and the Operators. It will also, and will cause the Affiliates to, keep and maintain true, correct and complete inventories of all Collateral and records of all transactions relating thereto. All such records, books of account and inventories will be kept and maintained at its principal place of business or at the Sites. At any reasonable time and from time to time, it agrees to permit, and to cause the Affiliates, the EPC Contractors and the Operators to permit, either Agent, the Engineer and any agent or representative thereof, to examine and make copies of and abstracts from such records, books of account and inventories, to visit the Projects and the other properties of Borrower and the Affiliates and to discuss the affairs, finances and accounts of Borrower, the Affiliates and the Projects directly with its and their auditors and with any of its and their officers or

managers; provided, that unless a Default or an Event of Default has occurred and is continuing, all discussions with the auditors of Borrower and the Affiliates will include a representative of Borrower, and the Agents will provide a copy of all written correspondence with the auditors to Borrower. It will, and will cause the Affiliates to, at all times maintain at the Sites or at its principal place of business a complete set of the current and, if available, as-built plans and specifications for the Projects, which will be available for inspection by the Agents, the Engineer and their respective agents and representatives.

(l) Reporting Requirements. It will, and will cause the Affiliates to, furnish to the Agents and the Lenders:

(i) as soon as available and in any event within

sixty (60) days after the end of each of the first three quarters of each fiscal year of such Person, complete unaudited financial statements of such Person, including the balance sheet of such Person as of the end of such quarter, and profit and loss statements and statements of cash flows of such Person for such quarter and for the elapsed portion of such fiscal year, in each case prepared in accordance with GAAP (subject to normal year-end adjustments and the absence of footnote disclosures) and setting forth in comparative form the figures for the corresponding period of the previous fiscal year of such Person, certified in a manner acceptable to the Agents by the chief financial officer of such Person;

(ii) as soon as available and in any event within one hundred and twenty (120) days after the end of each fiscal year of such Person, complete financial statements of such Person (which, in the case of Borrower will be audited), including the balance sheet of such Person as of the end of such fiscal year, and a profit and loss statement and a statement of cash flows of such Person for such fiscal year, in each case prepared in accordance with GAAP and setting forth in comparative form the figures for the previous fiscal year of such Person, certified in a manner acceptable to the Agents by the chief financial officer of such Person or, in the case of Borrower, independent certified public accountants acceptable to the Agents;

(iii) within ten (10) days after the last day of each calendar month during which a Construction/Acquisition Loan is outstanding, a Monthly Construction Report for each Project with respect to which a Construction/Acquisition Loan is outstanding in the form of Exhibit 5.1(l)(iii);

(iv) within sixty (60) days after the end of each fiscal quarter of such Person, a Quarterly Report and Certificate in the form of Exhibit 5.1(l)(iv);

(v) within one hundred and twenty (120) days after the end of each fiscal year of such Person, an Annual Report and Certificate in the form of Exhibit 5.1(l)(v);

(vi) promptly after the sending, filing or receipt thereof, a copy of each material report, notice, certificate, application, demand, request or other communication that such Person sends to, files with or receives from any Government Instrumentality or Project Party or sends or receives pursuant to any Document that relates to any matter that could reasonably be expected to have a Material Adverse Effect;

(vii) promptly after receipt thereof, copies of each Required Approval; and

(viii) such other information respecting the operations or condition (financial or otherwise) of such Person or the Projects or the other Collateral as an Agent may from time to time reasonably request.

(m) Notice Requirements. It will, and will cause the Affiliates to, give the Agents and the Lenders prompt written notice of the occurrence of any of the following:

(i) any Default or Event of Default;

(ii) any default, breach or violation or any potential default, breach or violation under any Contractual Obligation of such Person;

(iii) any actual, proposed or threatened termination, rescission or amendment of, waiver under or Claim with respect to any Project Document;

(iv) any material Loss;

(v) any Material Adverse Effect or any event or circumstance that could reasonably be expected to have a Material Adverse Effect;

(vi) any pending or threatened Claim, action, attachment, proceeding, suit, litigation, investigation or arbitration involving or affecting such Person, any Project Party or any of their respective

properties or assets (including without limitation the Projects and the other Collateral) by any Person or before any Government Instrumentality that could reasonably be expected to have a Material Adverse Effect;

(vii) any termination, revocation, suspension or modification of any Required Approval or any action or proceeding that could reasonably be expected to result in any of the foregoing;

(viii) the receipt of any management letter or similar communication from such Person's auditors, or the resignation, discharge or change of such Person's auditors;

(ix) any Environmental Claim or any fact, circumstance or condition (including any release or spill of any Hazardous Substance) that could form the basis of an Environmental Claim with respect to such Person, any Project Party (in connection with its obligations under the Documents) or any Project or any portion thereof or that could reasonably be expected to have a Material Adverse Effect;

(x) any pending or threatened condemnation or appropriation proceeding affecting any Project or any portion thereof that could reasonably be expected to have a Material Adverse Effect;

(xi) any material dispute involving such Person or any Project Party on the one hand and any Government Instrumentality or Project Party on the other hand (provided, that no notice need be given of a dispute between a Project Party and a Government Instrumentality unless such dispute could reasonably be expected to result in a Material Adverse Effect);

(xii) any event or claim of force majeure under any Project Document;

(xiii) any forced outage with respect to any Project that could reasonably be expected to result in a Material Adverse Effect;

(xiv) such Person's or any ERISA Affiliate's adoption of or participation in any Plan, or intention to adopt or participate in any Plan; or

(xv) any Internal Revenue Service ruling (other than a private letter or other non-public ruling not addressed to NRG, NEO, Borrower or any Affiliate) or any change in Law that could adversely affect the amount or availability to Guarantor, NEO or the Affiliates of the

Section 29 tax credits or the validity or enforceability of the Non-Operating Interest Acquisition Agreement.

Each notice delivered pursuant to this Section 5.1(m) must include reasonable details concerning the occurrence that is the subject of such notice as well as Borrower's and the Affiliates' proposed course of action, if any. Delivery of a notice pursuant to this Section 5.1(m) will not affect Borrower's and the Affiliates' obligations under any other provision of the Credit Documents.

(n) Reserves. It will establish the Debt Service Reserve Account and maintain the balance therein required by the Disbursement Agreement.

(o) [RESERVED]

(p) Insurance.

(i) It will maintain, and will cause the Affiliates, the EPC Contractors and the Operators to maintain, all Required Insurance and, on each anniversary of the Closing Date, will cause the Insurance Consultant to provide a letter to the Agents certifying that the insurance maintained by Borrower and the Affiliates is adequate and consistent with industry standards. All Required Insurance will be provided by financially sound and reputable insurance companies or associations rated "A-" or better (and a minimum size rating of IX) by Best's Insurance Guide and Key Ratings (or an equivalent rating by another nationally recognized insurance rating agency of similar standing if Best's Insurance Guide and Key Ratings is no longer published) or other insurance companies of recognized responsibility satisfactory to the Agents, including AEGIS. Borrower may fulfill its obligations under this Section 5.1(p) under a corporate ("master") program or through Contractor / Operator programs of insurance, subject to the prior approval of the Agents.

(ii) All Required Insurance will provide for waivers of subrogation in favor of the Agents and the Lenders, will not be cancelable without at least sixty (60) days' prior written notice to the Agents (except for 10 days for non-payment of premium), and all third party liability policies will name the Agents and the Lenders as additional insureds (except in the case of workers compensation insurances). Insurance protecting Project assets and revenues (property, boiler, business interruption, etc.) shall contain a standard Lender's Loss Payable endorsement, acceptable to the Agents, and name the Lenders or their assignee as first loss payee/mortgagee as respects mortgaged property. Property-related policies shall provide that any payment thereunder for loss or damage with respect to the mortgaged property shall be made to the

Project Revenue Account. Such property policies shall provide that any payment of less than $100,000 made in respect of any single casualty or other occurrence may be paid to Borrower, unless the Agents have notified the respective insurer that an Event of Default has occurred and is continuing. Insurance supplied by Borrower shall be primary as respects any other insurance carried by or on behalf of the Agents or the Lenders. The interests of the Agents and the Lenders shall not be invalidated by any action or inaction of any Person or by any breach or violation by any Person of any warranties, declarations or conditions in such policies. All liability insurance will provide a severability of interest or cross liability clause.

(iii) All Required Insurance maintained by the EPC Contractors and the Operators will provide for waivers of subrogation in favor of Borrower, the Affiliates, the Agents and the Lenders, will not be cancelable without at least sixty (60) days' prior written notice to the Agents (except 10 days for non-payment of premium), and all third party liability policies will name Borrower, the Affiliates, the Agents and the Lenders as additional insureds (except in the case of worker's compensation insurance). Insurance protecting Project assets and revenue (property, boiler, business interruption, etc.)

will name the Agents as the first loss payee/mortgagee as respects mortgaged properties. All liability insurance maintained by the EPC Contractors and the Operators will provide a severability of interest or cross liability clause and will be primary and not excess to or contributing with any insurance or self-insurance maintained by Borrower, the Affiliates, the Agents or the Lenders.

(iv) On the Closing Date and on each anniversary thereof, Borrower will furnish to the Agents evidence of insurance, in the form of binders, cover notes or certificates of insurance evidencing all coverages in place and certify (A) that all premiums are paid or current to date and (B) that Borrower is in compliance with all provisions in this Agreement relating to Required Insurance. Borrower will provide the Agents with copies of all insurance policies and certificates and other information that the Agents may reasonably request in writing with respect to the Required Insurance or the providers thereof and, without any requirement of request by an Agent, will provide the Agents with copies of all replacement policies within 15 days of receipt of such policies by Borrower.

(v) Borrower will, and will cause the Affiliates to, collaterally assign to the Term Agent and grant the Term Agent a Lien upon all insurance proceeds from the Projects obtained by such Persons or in which such Persons have any rights or interests (whether or not complying

with or described by this Section 5.1(p), and the Term Agent will have the right to make, settle, compromise and liquidate any and all Claims thereunder, without prejudice to its other rights and remedies under the Documents, the Required Insurance or Applicable Law.

(vi) In the event of a Loss (or a series of Losses arising from a related causal factor or occurring within a period of five (5) Business Days) of less than five percent (5%) of the total Qualified Project Construction Expenses or Qualified Project Acquisition Expenses (as projected in the Closing Pro Forma as of the Closing Date), as the case may be, of a Project in the aggregate, Borrower and the Affiliates will have the right to apply the insurance proceeds, if any, from such Loss to the restoration of the affected Project if such proceeds are sufficient, in the opinion of the Engineer, to pay the cost of restoration and cover Debt Service on the Term Loan corresponding to such Project during any period during which the revenues of the Project are reduced due to the restoration.

(vii) In the event that any policy is written on a "claims made" basis and is approved by the Agents and such policy is not renewed or the retroactive date of such policy is changed, Borrower shall obtain for each such policy or policies the broadest basic and supplemental extended reporting period coverage or "tail" reasonably available in the commercial insurance market for each such policy or policies and shall provide the Agents with proof that such basic and supplemental extended reporting period coverage or "tail" has been obtained.

(viii) In the event any insurance (including limits or deductibles thereof) hereby required to be maintained, other than insurance required by law to be maintained and the builder's risk insurance, described in Exhibit 3.1(i), shall not be available and commercially feasible in the commercial insurance market the Agents with the approval of the Insurance Consultant, shall not unreasonably withhold their agreement to waive such requirement to the extent the maintenance thereof is not so available; provided, that (A) Borrower shall first request any such waiver in writing which request shall be accompanied by written reports prepared by an independent insurance advisor of recognized national standing certifying that such insurance is not reasonably available and commercially feasible in the

commercial insurance market for plants of similar type and capacity (and, in any case where the required amount is not so available, certifying as the maximum amount which is so available) and explaining in detail the basis for such conclusions, such insurance advisers and the form and substance of such reports to be reasonably acceptable to the Agents; (B) at any time after the granting of any such waiver the Agent may request (but

no more than once every 180 days) and Borrower shall furnish to the Agents within 30 days after such request, supplemental reports reasonably acceptable to the Agents from such insurance advisers updating their prior reports and reaffirming such conclusions; and (C) any such waiver shall be effective only so long as such insurance shall not be available and commercially feasible in the commercial insurance market it being understood that the failure of Borrower to timely furnish any such supplemental report shall be conclusive evidence that such waiver is no longer effective because such condition no longer exists, but that such failure is not the only way to establish such non-existence.

(q) Litigation. In any action, suit, litigation, investigation, arbitration or other proceeding involving Borrower, the Affiliates or any Project, Borrower will, and will cause the Affiliates to, make all filings and responses in a timely manner, pursue all remedies and appeals, defend their rights and properties with diligence and take all lawful action to avoid a Material Adverse Effect. Borrower and the Affiliates will promptly pay any valid, final judgment rendered against it or any Project.

(r) Minimum Coverage Ratio. Borrower will maintain a Minimum Coverage Ratio of not less than 1.3 to 1 for the twelve (12) month period ending on the last day of the next preceding month and for the projected subsequent two (2) twelve (12) month periods as forecast in the Operating Plans and Budgets. The first such test shall be performed as of the first anniversary of the Closing Date and thereafter as of the end of each fiscal quarter of Borrower.

Section 5.2 Negative Covenants. Each Borrower covenants and agrees that, for so long as any Lender has any Commitment hereunder and until the indefeasible payment in full of the Notes and all amounts payable by Borrower and the Affiliates under the Credit Documents, it will perform and observe each of the following covenants, unless (and then only to the extent) compliance with such covenant has been waived pursuant to Section 8.5:

(a) Business. It will not, and will not permit any Affiliate to, make any material change in the nature of its business or engage in any business or activity not contemplated by the Documents. It will not, and will not permit any Affiliate to, change its name, its legal address, the address of its principal place of business or chief executive office or the location of its books, records and contracts, or store or maintain Collateral at any location other than the Sites and such principal place of business, without the prior written consent of the Agents. It will not, and will not permit any Affiliate to, adopt or change any trade name or fictitious business name. It will not, and will not permit any Affiliate to, form or have any subsidiaries other than other Affiliates and will not, and will not permit

any Affiliate to, own or hold the capital stock, securities, debt, assets or obligations of, or any interest in, any Person other than Borrower and the Affiliates. It will not, and will not permit any Affiliate to, enter into any partnership, joint venture, royalty agreement or profit-sharing or similar arrangement.

(b) Mergers and Sales of Assets. It will not, and will not permit any Affiliate to, merge or consolidate with any Person, or liquidate or dissolve. It will not, and will not permit any Affiliate to, sell, assign,

lease or otherwise dispose of (whether in one transaction or in a series of transactions) any asset except (i) in the ordinary course of business (including such sales from one Affiliate to another Affiliate), (ii) in connection with the replacement of such asset with a replacement that is appropriate and complies with all requirements of the Documents or (iii) in an instance in which the proceeds of such sale, assignment, lease or other disposition do not exceed fifty thousand Dollars ($50,000) in each instance and five percent (5%) of the total Qualified Project Construction Expenses or Qualified Project Acquisition Expenses (as projected in the Closing Pro Forma), as the case may be, of the Project from which such asset is being sold, assigned, leased or otherwise disposed of in the aggregate and, in every instance, such sale, assignment, lease or other disposition has no material impact on the operating cash flow of the relevant Project. The sale of gas, electric or thermal energy pursuant to a Power Purchase Agreement, a Gas Sales Agreement or any other Project Document will not violate this Section 5.2(b).

(c) Contractual Obligations.

(i) It will not, and will not permit any Affiliate to, enter into any material Contractual Obligation. If requested by an Agent, it will, and will cause an Affiliate to, collaterally assign any Contractual Obligation to the Term Agent and will deliver to the Term Agent the written consent to assignment of the other party or parties to such Contractual Obligation and a satisfactory opinion of Borrowers' Counsel confirming the validity and enforceability of such assignment and consent. It will not, and will not permit any Affiliate to, pledge or assign any Contractual Obligation to any Person other than the Term Agent.

(ii) It will not, and will not permit any Affiliate to, amend, suspend, terminate or grant a waiver under any Project Document, or take, or fail to take, any action that could result in the termination of, or the impairment of any right of such Person, either Agent or any Lender under, any Project Document or any other contract, arrangement or agreement material to the Projects. Notwithstanding the foregoing, Borrower and the Affiliates may approve change orders under the EPC Contracts without the

Agents' or the Lenders' consent; provided, that the work covered by such change orders does not exceed twenty-five thousand Dollars ($25,000) in the case of any single change order or fifty thousand Dollars ($50,000) in the aggregate per Project over any twelve-month period, and provided, further, that none of such change orders materially affects the character of the Projects or the ability of Borrower and the Affiliates to fulfill their obligations under the Documents. Notwithstanding the foregoing, it will not, and will not permit any Affiliate to, change, or approve a change order which would change the design, scope or nature of any Project, the Plans and Specifications of any Project, the Construction and Draw Schedule of any Project or the performance or availability guarantees or tests.

(iii) The Organizational Documents of Borrower and the Affiliates may not be amended or any provision thereof waived.

(iv) None of Borrower or the Affiliates will declare Final Performance Acceptance or Completion without the approval of the Agents (in consultation with the Engineer), which shall not be unreasonably withheld.

(v) It will, and will cause the Affiliates to, promptly deliver to the Agent copies of (A) all material Contractual Obligations, (B) all amendments, suspensions, termination and waivers of any material Contractual Obligation and (C) all change orders approved or entered into after the date of this Agreement.

(d) Guaranties. Other than pursuant to a Credit Document, it will not, and will not permit any Affiliate to, assume, guarantee, endorse or otherwise become directly or contingently liable for (including liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) the indebtedness or obligation of any other Person, except for guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

(e) Investments. It will not, and will not permit any Affiliate to, make any loan or advance to any Person except for loans that are expressly subordinated to the Loans pursuant to the Project Documents. Except for Permitted Investments made in compliance with the Disbursement Agreement, it will not, and will not permit any Affiliate to, purchase or otherwise acquire the capital stock, securities, debt, assets or obligations of, or any interest in, any Person other than Borrower and the Affiliates.

(f) Liens. It will not, and will not permit any other Person to, create, incur, assume or suffer to exist, any Lien upon or with respect to any of the Collateral or any of the other property of it or the Affiliates, now owned or hereafter acquired, or assign or otherwise convey, or permit any Person to assign or otherwise convey, any right to receive income or revenues from or of any Project, except that the foregoing restrictions will not apply to the following (collectively, "Permitted Liens"):

(i) the Security Document Liens;

(ii) Liens for Taxes, if such Taxes (A) are not at the time delinquent and thereafter can be paid without penalty or (B) are being contested in good faith by appropriate proceedings with reserves established in accordance with GAAP and such Liens have been bonded over and do not involve any risk that a significant interest in or right to any Collateral may be sold, lost or forfeited or that any Security Document Lien may be impaired;

(iii) carriers', warehousemen's, materialmen's and mechanics' Liens and other similar Liens imposed by Law and arising in the ordinary course of business in connection with the construction or operation of the Projects, if such Liens have been bonded over and either (A) are not filed of record and are not delinquent or (B) are being contested in good faith by appropriate proceedings with proper reserves established, have not proceeded to judgment and do not involve any risk that a significant interest in or right to any Collateral may be sold, lost or forfeited or that any Security Document Lien may be impaired;

(iv) Liens arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation (other than Liens imposed by ERISA);

(v) purchase money security interests in discrete items of equipment not comprising an integral part of a Project when the obligation secured is incurred for the purchase of such equipment and does not exceed one hundred percent (100%) of the lesser of cost or fair market value thereof at the time of acquisition, and the security interest does not extend beyond the equipment involved; provided, that such Liens and the amount of materials, equipment and fixtures supplied or purchased pursuant to this clause (v) will not, taken together, at any time exceed the maximum aggregate amount of two hundred thousand Dollars ($200,000);

(vi) the exceptions to the titles of the Sites set forth in the title reports delivered pursuant to Article III;

(vii) Liens arising from debt permitted pursuant to Section 5.2(g);

(viii) Liens securing the right of the City of San Diego to purchase the Miramar Project in form and substance acceptable to the Agents; and

(ix) Liens of the construction subcontractors on the Edgeboro Project existing by reason of a failure by the EPC Contractor for the Edgeboro Project to pay pre-petition claims relating to its bankruptcy proceedings (provided, that the Liens described in this clause (ix) shall cease to be Permitted Liens upon the first funding of a Construction/Acquisition Loan relating to the Edgeboro Project).

If foreclosure or enforcement of any Lien upon a Project, any part thereof or any other Collateral is at any time initiated, the Agents will have the right, but not the obligation, to take any action they deem appropriate, including payment of the obligation secured by such Lien, and Borrower will immediately upon demand reimburse the Agents for all sums expended by the Agents in taking any such action. Any amount not reimbursed upon demand will bear interest at the Default Rate and will be an obligation secured by the Security Document Liens.

(g) Indebtedness. It will not, and will not permit any Affiliate to, create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness of Borrower and the Affiliates under the Notes and the other Credit Documents;

(ii) Indebtedness of Borrower and the Affiliates subject to the Subordination Agreement or otherwise expressly subordinated pursuant to the Documents to the Loans; and

(iii) Indebtedness of Borrower and the Affiliates not to exceed, in the aggregate, one hundred thousand Dollars ($100,000) at any one time outstanding, secured by Liens permitted by Section 5.2(f)(v).

(h) Lease Obligations. It will not, and will not permit any Affiliate to, create or suffer to exist any obligation for the payment of rental for any property under leases or agreements to lease having a term of one year or more, other than the Project Documents.

(i) Distributions. It will not, and will not permit any Affiliate to, make, declare or pay any distribution, dividend or return of capital, or purchase, redeem or otherwise acquire for value any ownership interest now or hereafter outstanding, or make any distribution of assets or property to any other Person except for distributions made in compliance with the Disbursement Agreement. It will not, and will not permit any Affiliate to, pay any salary, commission, bonus or fee to any Affiliate unless such salary, commission, bonus or fee is expressly contemplated by and permitted under the Budgets then in effect.

(j) Changes in Control. It will not, and will not permit any Affiliate to, effect or permit any sale, transfer or encumbrance of any ownership interest in Borrower or any Affiliate or any change of control of Borrower or any Affiliate.

(k) Transactions with Affiliates and Third Parties. It will not, and will not permit any Affiliate to, directly or indirectly, conduct any business or enter into any transaction with any Affiliate unless the details of such business or transaction have been fully disclosed to the Agents and the Agents have given their prior written consent. It will not, and will not permit any Affiliate to, enter into any transaction with any Person other

than in the ordinary course of business and on an arm's-length basis and will not enter into any sole or exclusive business relationships.

(l) Environmental Compliance.

(i) It will not, and will not authorize any other Person to, use, generate, manufacture, handle, process, store, release, transport, remove, dispose of or clean up any Hazardous Substance on, under or from any Project, or onto any other property, in violation of any Environmental Law or in a manner that could lead to any Environmental Claim or pose a material risk to human health or the environment. It will comply fully, and will cause all other Persons authorized or suffered to be present by Borrower or any Affiliate at a Project to comply fully, with all Environmental Laws.

(ii) It will, and will cause the Affiliates to, promptly take all actions and pay all costs necessary to comply with all Environmental Laws, to remove and dispose of all Hazardous Substances and to clean-up the Projects and any other property affected by any Project or the activities of Borrower, the Affiliates, the Project Parties or their respective agents or for which Borrower and the Affiliates are otherwise responsible. If Borrower or the Affiliates fail to take the actions or pay the costs required under this Section 5.2(l), the Agents may, but have no obligation to, take

such actions or pay such costs, and all amounts so expended will be obligations of Borrower to the Lenders under the Credit Documents payable upon demand and secured by the Liens of the Security Documents. Nothing in this Section 5.2(l) will impose any obligation or liability whatsoever on the Agents or the Lenders.

(iii) From time to time and at any time, the Agents may cause an environmental audit of a Project to be conducted to confirm Borrower's and the Affiliates' compliance with this Section 5.2(l). It agrees, and will cause the Affiliates, to cooperate fully with the Agents and their agents in connection with each such audit and, not more than once every two calendar years, to pay the cost thereof.

(m) Public Utility Status. It will not, and will not permit any Affiliate to, either by act or omission, become, or cause any Agent or any Lender to become, subject to financial, organizational or rate regulation as an "electric utility," "electric utility company," "electric corporation," "electrical company," "public utility," "public service corporation," "gas utility," "natural gas company" (transporting gas in interstate commerce), "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity, under any Law.

(n) ERISA. Neither of Borrower nor any ERISA Affiliate will adopt, maintain, sponsor, participate in or incur any liability or obligation under or to any Plan or incur any obligation to provide post-retirement benefits to any Person.

(o) Use of Proceeds. It will, and will cause the Affiliates to, use the proceeds of the Loans only for the purposes described in Section 2.7 and in accordance with the requirements and conditions of the Credit Documents. It will not, and will not permit any Affiliate to, engage in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U or X issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will be used, directly or indirectly, to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock. No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(p) Bank Accounts. It will not, and will not permit any Affiliate to, maintain any account or deposit with any bank or other depository institution other than the accounts created under the Disbursement Agreement and such other

accounts as the Agents may approve in writing and in which the Lenders will have a perfected, valid and enforceable First-Priority Lien. It will not, and will not permit any Affiliate to, deposit funds into any account other than the accounts created under the Disbursement Agreement.

(q) Auditors. It will not, and will not permit any Affiliate to, discharge or change its auditors or change its fiscal year.

(r) Publicity. It will not, and will not permit any Affiliate to, issue, or consent to the issuance of, any press release, announcement or advertisement that refers to the financing contemplated by the Credit Documents without the prior written consent of the Agents.

(s) Abandonment. It will not, and will not permit any Affiliate to, abandon a Project or cease to operate a Project for any period of thirty (30) consecutive days.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.1 Events of Default. Each of the following constitutes an "Event of Default" under this Agreement:

(a) Any principal of any Loan is not paid within five (5) days after such principal is due or any Equity Contribution is not paid when due.

(b) Any interest on any Loan or any fee or other amount payable under any Credit Document (other than amounts described in paragraph (a) above) is not paid within five (5) days after such interest, fee or other amount is due.

(c) Any representation or warranty made by Guarantor, NEO, Borrower, any Affiliate or any Project Party (or any of their respective officers or representatives) in any Document or in any certificate, financial statement or other document furnished pursuant to or in connection with any Document proves to have been incorrect or misleading in any material respect at the time it was made, deemed to have been made, or confirmed; provided, that the fact that a representation or warranty of a Project Party was incorrect or misleading shall not be an Event of Default unless such fact could reasonably be expected to have a Material Adverse Effect.

(d) Guarantor, NEO, Borrower or any Affiliate fails to perform or observe any term, covenant or agreement contained in any Credit Document (other than any term, covenant or agreement that is the basis of another Event of Default)

to be performed or observed by it and such failure remains unremedied for five (5) days after the occurrence thereof; provided, that, if such failure can not be remedied within such five (5) day period, and if Borrower or such other Person is diligently seeking to remedy such failure, and if such failure is reasonably likely to be remedied within thirty (30) days after the initial five (5) day period, then Borrower or such other Person shall have an additional thirty (30) days to remedy such failure.

(e) Any Project Party fails to perform or observe any term, covenant or agreement contained in any Document (other than any term,

covenant or agreement that is the basis of another Event of Default) to be performed or observed by it, such failure is not remedied within any applicable grace period and such failure could reasonably be expected to have a Material Adverse Effect.

(f) The Security Documents for any reason cease to create perfected, valid and enforceable First-Priority Liens on the Collateral, or NEO, Borrower or any Affiliate so states in writing; provided, that if a perfected, valid and enforceable First-Priority Lien on the Collateral can be created within thirty (30) days, and if Borrower is diligently seeking to do so, then Borrower shall have thirty (30) days to create such a Lien.

(g) Any provision of any Document (i) is terminated, repudiated or declared to be invalid by any party thereto or by any Government Instrumentality or (ii) for any reason ceases to be valid and binding and of full force and effect and, in either case, could reasonably be expected to have a Material Adverse Effect.

(h) Borrower or any Affiliate fails to pay any Indebtedness (other than Indebtedness evidenced by the Notes or arising under the Credit Documents) or any interest or premium thereon when due; or any other default under any agreement or instrument relating to any such Indebtedness, or any other event, occurs and continues after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness or to permit the exercise of any remedy against Borrower or any Affiliate or any of their respective properties, whether or not such default or event is waived by the holders or trustees for such Indebtedness; or any such Indebtedness is declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof.

(i) A final judgment or order for the payment of money in excess of two hundred fifty thousand Dollars ($250,000) is rendered against Borrower or any Affiliate and either (i) enforcement proceedings are commenced by any

creditor upon such judgment or order or (ii) a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect for any period of ten (10) consecutive days.

(j) A Bankruptcy Event occurs with respect to Guarantor, NEO, Borrower, any Affiliate or any Project Party and, in the case of a Project Party, such event could reasonably be expected to have a Material Adverse Effect.

(k) (i) Any Law is enacted, (ii) any change in Law or any change in the interpretation or administration of any Law (having the force of Law) occurs, (iii) any Claim is asserted against a Project, Guarantor, NEO, Borrower, any Affiliate or any Project Party or (iv) any other event or circumstance occurs, that has or could reasonably be expected to have a Material Adverse Effect.

(l) A Major Loss occurs.

(m) Any Governmental Instrumentality or any Person acting or purporting to act under the authority of any Governmental Instrumentality takes any action to condemn, seize or appropriate, or to assume custody or control of, all or any substantial part of a Project or other property of Borrower or any Affiliate, or takes any action to displace or curtail the authority of the management of Borrower or any Affiliate and such action could reasonably be expected to have a Material Adverse Effect.

(n) An "Event of Default" occurs under the Guaranty.

(o) Guarantor fails to perform or observe any term,

covenant or agreement in the Non-Operating Interest Acquisition Agreement to be performed by it and such failure remains unremedied for five (5) days after the occurrence thereof.

(p) An "Event of Default" occurs under any loan agreement to which any primary customer of any Project, or any parent company thereof, is a party.

Section 6.2 Remedies. The Agents will use reasonable efforts to notify Borrower of an Event of Default, but any failure by the Agents to notify Borrower of an Event of Default will not effect the rights of the Agents and the Lender hereunder or under the other Credit Documents. Upon the occurrence of an Event of Default described in Section 6.1(j), the Commitments of the Lenders will forthwith terminate and the Notes, all interest thereon and all other amounts payable under the Credit Documents will become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower. Upon the occurrence and during

the continuance of any other Event of Default, the Agents will at the request, or may with the consent, of the Majority Lenders, by notice to Borrower, (i) declare the Commitment of each Lender to be terminated, whereupon the same will forthwith terminate and (ii) declare the Notes, all interest thereon and all other amounts payable under the Credit Documents to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts will become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower.

Section 6.3 Right to Complete.

(a) Upon the occurrence and during the continuance of an Event of Default, the Agents and the Lenders, in addition to any other remedy that they may have under the Credit Documents or by Law, will have the right (but not the obligation) in their sole and absolute discretion:

(i) to enter upon a Site, a Project and other property owned or leased by Borrower or any Affiliate and complete the acquisition, construct, equip and complete a Project, at the risk, cost and expense of Borrower;

(ii) at any and all times to discontinue any work commenced by them in respect of a Project or to change any course of action undertaken by them; and

(iii) to take over and use all or any part of the labor, materials, supplies and equipment contracted for by or on behalf of Borrower and the Affiliates, whether or not previously incorporated into a Project; provided, that the Agents will use reasonable efforts to provide Guarantor with draft agreements relating to their actions taken pursuant to this Section 6.3(a) and will provide Guarantor with reasonable opportunity to comment thereon.

The Agents may exercise the rights described in this Section 6.3 from time to time and at any time after the occurrence and during the continuance of an Event of Default, whether or not the Notes have become due and payable and whether or not foreclosure has been initiated under the Security Documents. In no event will the actions of the Agents or the Lenders constitute either Agent or any Lender a mortgagee-in-possession, and Borrower hereby indemnifies the Agents and the Lenders from and against any and all costs and liabilities resulting from any such characterization or from their actions or omissions to act pursuant to this Section 6.3.

(b) In connection with any construction or development of a Project undertaken by the Agents and the Lenders pursuant to the

provisions of this Section 6.3, they may:

(i) engage builders, contractors, architects, engineers, security services and others for the purpose of furnishing labor, material, equipment and security in connection with any construction of a Project;

(ii) pay, settle or compromise, or cause to be paid, settled or compromised, all claims or bills that may become Liens against a Site or a Project, or that have been or may be incurred in any manner in connection with the acquisition, construction, development, completion and equipping of a Project or for the discharge of Liens or defects in the title of a Site or a Project; and

(iii) take such other action or refrain from acting under this Agreement as the Lenders may in their sole and absolute discretion from time to time determine.

(c) Borrower will be liable to the Agents and the Lenders for all sums paid or incurred for the acquisition, construction, development, completion and equipping of a Project and all payments made or liabilities incurred by the Agents and the Lenders under this Agreement of any kind whatsoever will be paid by Borrower to the Agents and the Lenders upon demand with interest to the date of payment to the Agents and the Lenders at the Default Rate.

(d) For the purpose of carrying out the provisions and exercising the rights, powers and privileges granted by this Section 6.3, Borrower irrevocably constitutes and appoints the Agents, with full power of substitution, as its true and lawful attorneys-in-fact, in its name and on its behalf, and at its expense, to execute, acknowledge and deliver any document and instrument and to do and perform any act such those referred to in this Section 6.3, without notice to or the consent of Borrower. This power of attorney is coupled with an interest and is not revocable.

ARTICLE VII

THE AGENTS

Section 7.1 Authorization and Action. Each Construction/Acquisition Lender hereby appoints and authorizes the Construction/Acquisition Agent, and each Term Lender hereby appoints and authorizes the Term Agent, to take such actions as agent on its behalf and to exercise such powers under this Agreement and the other Credit Documents as are

delegated to each such Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. The Agents will have no duties, responsibilities, obligations or liabilities other than those expressly set forth in the Credit Documents, and no additional duties, responsibilities, obligations or liabilities will be inferred from the provisions of the Credit Documents or imposed on the Agents. As to matters not expressly provided for by this Agreement or the other Credit Documents (including enforcement or collection of the Notes), the Agents will not be required to exercise any discretion or take any action, but will be required to act or to refrain from acting (and will be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions will be binding upon all the Lenders and all holders of Notes, provided that the Agents will in no event be required to take any action which exposes them to personal liability, which is contrary to the Credit Documents or Law or with respect to which the Agents do not receive adequate instructions or full indemnification from the Lenders. The provisions of this Article VII are solely for the benefit of the Agents, their agents and their respective affiliates and the Lenders. The Agents have no duties or relationships of trust or agency with or to Guarantor, NEO, Borrower, the Affiliates, the Project Parties or their

respective affiliates.

Section 7.2 Delegation of Duties. The Agents may delegate any of their responsibilities or duties under the Credit Documents to one or more agents and will not be liable for the negligence or misconduct of any agent selected by them with reasonable care.

Section 7.3 Agents' Reliance. None of the Agents, their agents or any of their respective affiliates will be liable for any action taken or omitted to be taken by any of them under or in connection with the Documents, except that each will be liable for its own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction. Without limiting the generality of the foregoing, each Agent:

(a) may treat the payee of any Note as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in a form satisfactory to the Agent;

(b) may consult with legal counsel (including Borrower's Counsel), independent public accountants and other experts selected by it and will not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts;

(c) makes no representation or warranty to any Lender and will not be responsible to any Lender for any statement, representation or warranty made in or in connection with the Documents;

(d) will not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Documents or to inspect the Projects or the books and records or any other property of Guarantor, NEO, Borrower, the Affiliates or any Project Party;

(e) will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Document or any other document or instrument furnished pursuant thereto, or for the failure of any Person to perform its obligations under any Document; and

(f) will incur no liability under or in respect of this Agreement or any other Document or otherwise by acting upon any notice, consent, waiver, certificate or other writing or instrument (including facsimiles, telexes, telegrams and cables) believed by it to be genuine and signed or sent by the proper Person or Persons.

Section 7.4 Notice of Default. Neither Agent will be deemed to have knowledge or notice of any Default or Event of Default unless and until it has received written notice from a Lender or Borrower referring to this Agreement, describing the Default or Event of Default and stating that such notice is a "notice of default."

Section 7.5 Agents as Lenders. With respect to their Commitments, the Loans funded by them and the Notes issued to them, Lyon Credit Corporation and Credit Lyonnais New York Branch will have the same rights and powers under the Credit Documents as any other Lender and may exercise the same as though they were not the Agents and, unless otherwise expressly indicated, the term "Lender" or "Lenders" will include Lyon Credit Corporation and Credit Lyonnais New York Branch in their individual capacities. Lyon Credit Corporation, Credit Lyonnais New York Branch and their affiliates may accept deposits from, lend money to, act as trustee under indentures of and generally engage in any kind of business with Guarantor, NEO, Borrower and the Affiliates, and any Person who may do business with or own securities of Guarantor, NEO, Borrower or the Affiliates, all as if Lyon Credit Corporation and Credit Lyonnais New York Branch were not the Agents and without any duty to

account therefor to the Lenders.

Section 7.6 Credit Decisions. Each Lender acknowledges that neither Agent nor any of their affiliates has made any representation or warranty with respect to Guarantor, NEO, Borrower, the Affiliates, the Projects or any other matter, and agrees that no review or other action by the Agents or any of their affiliates will be deemed to constitute any such representation or warranty. Each Lender acknowledges that it has, independently and without reliance upon either Agent or any other Lender, and based on the financial statements referred to in Section 4.1(k) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Credit Documents to which it is party. Each Lender also acknowledges and agrees that it will, independently and without reliance upon either Agent or any other Lender, and based on such documents and information as it deems appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Documents. The Agents will have no obligation to provide to any Lender any information or document concerning or relating to the Projects, Guarantor, NEO, Borrower, the Affiliates or any other Person or matter that may come into the Agents' possession or to obtain any such information or documents; provided, that the Agents will deliver to the Lenders information and documents actually received by the Agents from Guarantor, NEO, Borrower and the Affiliates pursuant to the Credit Documents for distribution to the Lenders.

Section 7.7 Indemnification. The Lenders agree to indemnify the Agents, their agents and their respective affiliates (to the extent not reimbursed by Borrower), ratably according to the respective principal amounts of the Notes then held by each of the Lenders (or if no Notes are at the time outstanding, ratably according to the respective amounts of the Lenders' Commitments), from and against any and all Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against the Agents, their agents or their respective affiliates by any Person (including any Lender) in any way relating to or arising out of:

(a) the Projects;

(b) any Document;

(c) any action taken or omitted by either Agent or any Lender;

(d) any claim for brokerage fees or commissions in connection with any transaction contemplated by the Documents;

(e) any Claim based on any misstatement or inaccuracy in or omission from any disclosure provided by Guarantor, NEO, Borrower, the Affiliates or their representatives in connection with the syndication of the Loans;

(f) the actual or alleged presence, release or discharge of any Hazardous Substance on, from or under a Project or the existence, use, generation, manufacture, handling, processing, storage, release, transportation, removal, disposal or clean-up thereof of any Hazardous Substance on or at a Project or by Borrower, any Affiliate or any Project Party; or

(g) any Environmental Claim asserted against or relating to a Project, Borrower, any Affiliate or any Project Party or any actual or alleged violation of any Environmental Law by any of such Persons; provided, that no Lender will be liable to any Person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Person's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

Without limiting the generality of the foregoing, each Lender agrees to reimburse the Agents promptly upon demand for such Lender's ratable share of any cost, expense or Tax described in Section 8.11 incurred by or imposed on an Agent for which the Agent does not receive reimbursement from Borrower. Payment by an indemnified party will not be a condition precedent to the obligations of the Lenders under this indemnity. This Section 7.7 will survive the Closing Date, the making and repayment of the Loans and any transfer or assignment of the Notes.

Section 7.8 Successor Agents. Each Agent may resign at any time by giving at least thirty (30) days' prior written notice thereof to the Lenders and Borrower and may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders will have the right to appoint a successor Agent. If within thirty (30) days after the resignation or removal of the retiring Agent no successor Agent accepts appointment by the Majority Lenders, the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which will be a commercial bank organized under the Laws of the United States or of any State thereof and will have a combined capital and surplus of at least two hundred fifty million Dollars ($250 million). Upon the acceptance of its appointment as Agent, the successor Agent will thereupon succeed to and be vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent will be discharged from its

duties and obligations under the Credit Documents. After any retiring Agent's resignation or removal, the provisions of this Article VII will inure to its benefit as to any action taken or omitted to be taken by it while it was Agent.

Section 7.9 Agents Together and Separately. The Construction/Acquisition Agent and the Term Agent agree to work together throughout the term of this Agreement, notwithstanding that a Construction/Acquisition Loan or a Term Loan is not outstanding at any time. Except as specifically stated in this Agreement, each of the Construction/Acquisition Agent and the Term Agent is an "Agent" for all purposes under this Agreement and each will provide the other with copies of all documents received by it and will take all reasonable action to share with the other relevant information learned by it about Guarantor, NEO, Borrower, the Affiliates, the Project Parties, the Projects and all other Collateral. The Construction/Acquisition Agent will have primary responsibility for the administration of the Construction/Acquisition Loans and of Borrower's compliance with the terms thereof, and the Term Agent will have similar responsibility for the administration of the Term Loans. In the case of any disagreement between the Construction/Acquisition Agent and the Term Agent, to the extent that any circumstance requires them to act together and not separately, the Agent with the greater amount of then-outstanding Loans for which it has administrative responsibility will control the actions of the Agents.

Section 7.10 Term Agent as Beneficiary of Security Documents and Pledgee of Collateral. The Term Agent is and will be the beneficiary of the Security Documents and the pledgee of the Collateral. The Term Agent and the Construction/Acquisition Agent agree, for their own benefit and for the benefit of the Lenders, that, when it is a party to a Security Document, the Term Agent is acting as the agent for all of the Lenders and that all Lenders have a pari passu interest in the Collateral held by and pledged to the Term Agent.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1 Counterparts. Each of the Credit Documents may be executed in any number of counterparts and by the different parties thereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same

instrument.

Section 8.2 Integration. The Credit Documents contain the complete agreement among Guarantor, NEO, Borrower, the Affiliates, the Lenders and the Agents with respect to the matters contained therein and supersede all

prior commitments, agreements and understandings, whether written or oral, with respect to the matters contained therein.

Section 8.3 Severability. Any provision of any Credit Document that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of such Credit Document to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of such Credit Document or of any other Credit Document, or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 8.3 with an effective provision which as closely as possible corresponds to the spirit and purpose of such ineffective provision and the affected Credit Document as a whole.

Section 8.4 Further Assurances. At any time and from time to time upon the request of either Agent, Borrower will, and will cause NEO or the Affiliates to, execute and deliver such further documents and instruments and do such other acts as the Agent may reasonably request in order to effect fully the purposes of the Credit Documents, to create, perfect, maintain and preserve First-Priority Liens on the Collateral in favor of the Term Agent and to provide for the payment of the Loans and the other obligations of Borrower and the Affiliates in accordance with the terms of the Credit Documents.

Section 8.5 Amendments and Waivers. No amendment or waiver of any provision of any Credit Document, or consent to any departure by Borrower therefrom, will be effective unless it is in writing and signed by the Majority Lenders; provided, that no amendment, waiver or consent will, unless in writing and signed by all Lenders, do any of the following:

(a) waive any condition set forth in Article III;

(b) increase any Commitment or subject the Lenders to any additional obligation;

(c) reduce the principal of, or interest on, the Notes or any fee payable under the Credit Documents;

(d) postpone any date fixed for the payment of principal of, or interest on, the Notes or any fees payable under the Credit Documents;

(e) release any Collateral;

(f) amend or waive the provisions of Section 5.2(f), 5.2(g), 5.2(j), 8.5 or 8.7(b); or

(g) change the definition of "Majority Lenders."

A waiver or consent granted pursuant to this Section 8.5 will be effective only in the specific instance and for the specific purpose for which it is given.

Section 8.6 No Waiver; Remedies Cumulative. The waiver of any right, breach or default under any Credit Document by either Agent or any Lender must be made specifically and in writing. No failure on the part of either Agent or any Lender to exercise, and no forbearance or delay in exercising, any right under any Credit Document will operate as a waiver thereof; no single or partial exercise of any right under any Credit Document will preclude any other or further exercise thereof or the exercise of any

other right; and no waiver of any breach of or default under any provision of any Credit Document will constitute or be construed as a waiver of any subsequent breach of or default under that or any other provision of any Credit Document. No notice to or demand upon Borrower will entitle Borrower to any further, subsequent or other notice or demand in similar or any other circumstances. Each of the rights and remedies of the Agents and the Lenders under the Credit Documents is cumulative and not exclusive of any other right or remedy provided or existing by agreement or under Law.

Section 8.7 Successors and Assigns.

(a) Each Credit Document will be binding upon and inure to the benefit of the parties thereto and all future holders of Notes and their respective successors and permitted assigns.

(b) Borrower has no right to assign its rights or interests, or delegate its duties or obligations, under any Credit Document without the prior written consent of all Lenders.

(c) The Lenders may not syndicate or transfer all or any part of their respective Commitments to other financial institutions without the prior written consent of the Agents and at no time will there be more than eight (8) Lenders except with the consent of Borrower. In addition, no Person shall become a Lender hereunder the long-term unsecured debt of which, at the time such Person becomes a Lender, is not rated at least BBB- by Standard & Poor's. The Lenders may not syndicate or transfer their Commitments to any other Person that would, by virtue of such Person's becoming a Lender, cause a Project to cease to be a Qualifying Facility. Each such transfer is subject to a minimum purchase requirement of one million Dollars ($1,000,000), and in connection with each such transfer, the transferring Lender and its transferee will execute and deliver a supplement to this Agreement in the form of Exhibit 8.7(c). Upon delivery of such supplement to the Agents, the transferee will become a "Lender" under the Credit

Documents with all of the attendant rights, benefits and obligations; the respective Pro Rata Shares of the transferring Lender and its transferee will be appropriately adjusted; and Borrower will execute and deliver to the transferring Lender and its transferee replacement Notes reflecting their respective Pro Rata Shares. The Note or Notes being replaced will be canceled and returned to Borrower. Each replacement Note will have endorsed thereon the disbursements, payments and amount outstanding thereunder. After any such transfer, the transferring Lender will have no obligation with respect to the portion of its Commitments transferred.

(d) The holder of any Note or Commitment will have the right to grant participations in such Note or Commitment to any Person on such terms and conditions as are determined by such holder in its sole and absolute discretion; provided, that no such grant of participations will release any Lender from its obligations hereunder or create any additional obligation on Borrower.

(e) Each Lender has the right to assign and pledge all or any portion of the obligations owing to it under the Credit Documents to any Federal Reserve Bank or to the United States Department of the Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by the Federal Reserve System; provided, that no such collateral assignment will release any Lender from its obligations hereunder.

(f) Each Lender represents and warrants to the Agents, each other Lender and Borrower that in making Loans hereunder such Lender will be acquiring the Notes issued to it for the purpose of investment and not with the view to, or for sale in connection with, any distribution in violation of the Securities Act of 1933, as amended.

Section 8.8 No Agency. None of Borrower or either Affiliates

is the agent or representative of either Agent or any Lender or is authorized to act on behalf of or bind either Agent or any Lender in any way.

Section 8.9 No Third Party Beneficiaries. Except as otherwise expressly stated therein, each Credit Document is intended to be solely for the benefit of the parties thereto and their respective successors and permitted assigns and is not intended to and does not confer any right or benefit on any third party.

Section 8.10 Nonrecourse. The Loans are the obligations solely of Borrower and the Lenders will have access only to the Collateral and the assets of Borrower for repayment. The Lenders will have recourse against Guarantor only to the extent of its obligations under the Guaranty and any other Document to which it is a party and against NEO or any Affiliate only (a) to the extent of its obligations under any Document to which it is a party, (b) in the case of fraud,

misrepresentation, misappropriation of funds, gross negligence or willful misconduct and (c) with respect to any Collateral pledged by it.

Section 8.11 Costs, Expenses and Taxes. Borrower agrees to pay to the Agents and the Lenders on demand all costs, expenses and Reimbursable Taxes incurred or arising in connection with the preparation, documentation, negotiation, execution, delivery, funding, syndication (in accordance with clause (a) of the next sentence), administration or enforcement of the Credit Documents or the transactions contemplated thereby or effected pursuant thereto. Such costs, expenses and Reimbursable Taxes will include (a) all reasonable fees, costs and expenses arising or incurred in connection with the syndication of the Loans prior to the Closing Date, but not thereafter, including pursuant to Section 8.7(c), (b) all reasonable fees of, and expenses incurred by, the Engineer, the Energy Consultant, Lenders' Counsel, the Process Agent, the Title Insurer, the Insurance Consultant and all other advisers and consultants engaged pursuant to the Credit Documents, (c) all Taxes and all filing and recordation fees and expenses payable in order to create, attach, perfect, continue and enforce the Liens of the Security Documents, and the cost of the Title Policies and all endorsements thereto, (d) all fees, costs, expenses, Taxes and insurance premiums incurred in connection the protection, maintenance, preservation, collection, liquidation or sale of, or foreclosure or realization upon, any Collateral, (e) all reasonable attorneys' fees and expenses and other costs incurred in connection with (i) complying with any subpoena or similar legal process relating in any way to any Project, any Document, Borrower, Guarantor, NEO, any Affiliate or any Project Party, (ii) determining the rights and responsibilities of the Agents or the Lenders under the Credit Documents, (iii) any enforcement, amendment or restructuring of, or waiver or consent under, under any Credit Document, (iv) foreclosure or realization upon any Collateral or (v) any bankruptcy, insolvency, receivership, reorganization, liquidation or similar proceeding or any appellate proceeding involving any Project, Borrower, Guarantor, NEO, any Affiliate or any Project Party, and (f) all costs and expense incurred by either Agent or any Lender in connection with the payment of any Construction/Acquisition Loan on any day other than the last day of its Interest Period and with the borrowing of a Term Loan on any Funding Date other than the Funding Date projected in the Closing Pro Forma as of the Closing Date. Borrower agrees to make the payments required under this Section 8.11 regardless of whether the transactions contemplated by the Credit Documents are consummated and hereby indemnifies the Agents and the Lenders for all liabilities resulting from any failure or delay in making any payment required under this Section 8.11. Borrower's obligations under this Section 8.11 constitute Obligations secured by the Security Document Liens. The Agents will provide to Borrower, at the expense of Borrower, copies of all invoices, receipts and other documentation relating to any amount payable pursuant to this Section 8.11 and reasonably requested by Borrower.

Section 8.12 Indemnity.

(a) Borrower agrees to indemnify the Lenders, the Agents and their respective affiliates from and against any and all Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against them or any one or more of them by any Person (including any Lender) in any way relating to or arising out of (a) any Project, (b) any Document, (c) any action taken or omitted by or any one or more of them pursuant to any Credit Document, (d) any claim for brokerage fees or commissions in connection with any transaction contemplated by the Documents, (e) any claim based on any misstatement or inaccuracy in or omission in any disclosure provided by Borrower, Guarantor, NEO or any Affiliate in connection with the syndication of the Loans, (f) the actual or alleged presence, release or discharge of any Hazardous Substance on, from or under any Project or the existence, use, generation, manufacture, handling, processing, storage, release, transportation, removal, disposal or clean-up of any Hazardous Substance on or at a Project or by Borrower, any Affiliate or any Project Party or (g) any Environmental Claim asserted against or relating to a Project, Borrower, any Affiliate or any Project Party or any actual or alleged violation of any Environmental Law by any of such Persons; provided, that Borrower will not be liable to any Person for any portion of such Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Person's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction or for any lost profits of any Lender arising from any acceleration of a Loan (other than prepayment penalties specifically provided for in this Agreement). Payment by an indemnified party will not be a condition precedent to the obligations of Borrower under this indemnity. This Section 8.12(a) will survive the Closing Date, the making and repayment of the Loans and any transfer or assignment of Notes.

(b) Each Lender hereby agrees that, if the actions of any Lender cause the conditions precedent contained in Section 3.2(n) not to be able to be satisfied in a manner that permits Borrower to receive the requested Construction/Acquisition Loan, then Borrower will be entitled to receive a partial refund of the fee paid by it pursuant to Section 2.5(c) based on the number of days for which the fee has been paid but on which the Commitments for the Construction/Acquisition Loans are not available.

Section 8.13 Right of Set-off. Upon the occurrence and during the continuance of an Event of Default, each Lender is hereby authorized at any time and from time to time, without notice to Borrower (any such notice being expressly waived by Borrower), to set off and apply any and all deposits (general

or special, time or demand) at any time held and other indebtedness at any time owing by such Lender (at any of its offices, branches or agencies, wherever located) to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not such Lender or either Agent has made any demand under any Note or any other Credit Document, and although such obligations may be continuing or unmatured. Each Lender agrees to notify Borrower promptly after any such set-off and application; provided, that the failure to give such notice will not affect the validity of such set-off and application. The rights of the Lenders under this Section 8.13 are in addition to all other rights and remedies (including other rights of set-off) the Lenders may have.

Section 8.14 Sharing of Payments. Each Lender agrees that if as of any date it obtains any payment (whether by voluntary payment, realization upon security, exercise of the right of set-off or banker's lien, counterclaim or cross action or otherwise) on account of the Note or Notes held by it in excess of its Pro Rata Share of all payments on account of the Notes obtained by the Lenders, it will purchase for cash without recourse or warranty from the other Lenders interests in their Notes in such amounts as will result in a proportional participation by all of the Lenders in such excess payment.

If any of such excess payment is subsequently recovered from such purchasing Lender, any purchases of interests in Notes will be rescinded and the purchase prices restored to the extent of such recovery, in each case without interest. Borrower agrees that any Lender purchasing an interest in a Note pursuant to this Section 8.14 may exercise its rights of payment (including the right of set-off) with respect to such interest as fully as if such Lender were the direct creditor of Borrower in the amount of such interest. This Section 8.14 is for the sole benefit of the Lenders and does not confer any right upon Borrower.

Section 8.15 Governing Law. EACH CREDIT DOCUMENT (OTHER THAN CREDIT DOCUMENTS THAT SPECIFICALLY STATE OTHERWISE) WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, OTHER THAN CONFLICT OF LAWS PRINCIPLES THAT WOULD APPLY THE LAWS OF ANOTHER JURISDICTION, AND EXCEPT TO THE EXTENT THAT THE LAWS OF ANOTHER JURISDICTION ARE MANDATORILY APPLICABLE.

Section 8.16 Waiver of Presentment, Demand, Protest an Notice. Except as specifically stated herein or therein, Borrower irrevocably waives presentment, demand, protest and notice of any kind in connection with any Credit Document or any Collateral.

Section 8.17 Waiver of Immunity. To the extent that Borrower has or hereafter acquires any immunity from jurisdiction of any court or from legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its properties, Borrower hereby irrevocably waives such immunity in respect of its obligations under the Credit Documents.

Section 8.18 Waiver of Jury Trial. BORROWER, THE AGENTS AND THE LENDERS WAIVE ANY RIGHT THEY MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED ON OR ARISING FROM ANY CREDIT DOCUMENT, ANY TRANSACTION CONTEMPLATED THEREBY OR EFFECTED PURSUANT THERETO, ANY DEALING OR COURSE OF DEALING BETWEEN OR AMONG THEM RELATING IN ANY WAY TO THE SUBJECT MATTER OF THE CREDIT DOCUMENTS OR ANY STATEMENT OR ACTION OF ANY OF THEM OR THEIR AFFILIATES. Each of the parties to this Agreement acknowledges and agrees that this waiver is a material inducement to enter into the business relationship contemplated by the Credit Documents and that each has relied on this waiver in entering into the Credit Documents to which it is a party and will continue to rely on this waiver in its future dealings with the other parties. The scope of this waiver is intended to be all-encompassing and this waiver will apply to all Claims of any nature whatsoever, whether deriving from contract, arising by law, based on tort or otherwise. BORROWER, THE AGENTS AND THE LENDERS HAVE MADE THIS WAIVER KNOWINGLY AND VOLUNTARILY AND THIS WAIVER IS IRREVOCABLE. THIS WAIVER WILL ALSO APPLY TO ALL AMENDMENTS, SUPPLEMENTS, RESTATEMENTS, EXTENSIONS AND MODIFICATIONS OF ANY CREDIT DOCUMENT AS WELL AS TO ANY CREDIT DOCUMENT ENTERED INTO AFTER THE DATE OF THIS AGREEMENT. In the event of litigation, this agreement may be filed as a written consent to a trial by the court.

Section 8.19 Consent to Jurisdiction. Each of Borrower, the Agents and the Lenders hereby irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan over any action or proceeding arising out of or relating to any Claim, and each of them hereby irrevocably agrees that all Claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Each of Borrower, the Agents and the Lenders irrevocably waives any objection that it may now or hereafter have to the laying of venue in such forums and agrees not to plead or claim that any such action or proceeding brought in any such New York state or United States federal court has been brought in an inconvenient forum. Borrower hereby irrevocably appoints the Process Agent as its agent to receive on behalf of it and its property service of copies of the

summons and complaint and any other process that may be served in any such

action or proceeding. Such service may be made by mailing or delivering a copy of such process to Borrower in care of the Process Agent at 1633 Broadway, New York, New York 10007 and Borrower hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. In addition and as an alternative method of service, Borrower also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Borrower at its address set forth on the signature pages to this Agreement. Borrower agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Nothing in this Section 8.19 will affect the right of the Agents and the Lenders to serve legal process in any other manner permitted by Law or affect the right of the Agents and the Lenders to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction. If for any reason the Process Agent ceases to be available to act as Process Agent, Borrower agrees immediately to appoint a replacement Process Agent satisfactory to the Agents.

Section 8.20 Confidentiality. Borrower, the Agents and the Lenders agree to use reasonable efforts to keep confidential the Documents and each document and all information delivered to them by another party to this Agreement and marked "confidential." Notwithstanding the foregoing, each party will be permitted to disclose confidential documents and information (a) to another party, (b) to its affiliates, advisers and consultants, (c) to prospective participants or prospective purchasers or transferees of interests in Notes and their respective affiliates, advisers and consultants, (d) to any Government Instrumentality having jurisdiction over such party, (e) in response to any subpoena or other legal process or to comply with Law, (f) to the extent reasonably required in connection with any litigation to which such party is a party, (g) to the extent reasonably required in connection with the exercise of its rights or remedies under any Credit Document or (h) to the extent such documents or information already have been publicly disclosed by another Person. Each prospective participant, purchaser and transferee and each adviser and consultant to which confidential documents or information is disclosed will be required to execute a confidentiality agreement containing the provisions of this Section 8.20.

Section 8.21 Notices. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party, Guarantor, NEO, or any Affiliate under the terms of any Credit Document (a) must be in writing, (b) must be personally delivered, transmitted by an internationally recognized courier service or transmitted by facsimile and (c) must be directed to such party at its address or facsimile number set forth on the signature pages to this Agreement or, in the case of a notice to Guarantor, NEO or

any Affiliate, to Borrower. All notices will be deemed to have been duly given and received on the date of delivery if delivered personally, three days after delivery to the courier if transmitted by courier, or on the date of transmission with confirmation if transmitted by facsimile, whichever occurs first; provided, that notices to an Agent pursuant to Article II or VII will not be effective until actually received by the Agent. Any party may change its address or facsimile number for purposes hereof by notice to all other parties.

Section 8.22 Legal Representation of the Parties. This Agreement and other Credit Documents were negotiated by the parties with the benefits of legal representation and any rule of construction or interpretation otherwise requiring this Agreement or any Credit Document to be construed or interpreted against any party shall not apply to any construction or interpretation hereof or thereof.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Construction, Acquisition and Term Loan Agreement to be signed on the date first above written.

NEO LANDFILL GAS, INC.

By /s/ PETER D. JONES

Name: Peter D. Jones
Title: President

Address: c/o NEO Corporation
1221 Nicollet Mall
Suite 700
Minneapolis, Minnesota 55403

Attention: President
Facsimile No.: (612) 373-5465

With a copy to:

M. Curtis Whittaker, Esq.
Rath, Young & Pignatelli, P.A.
One Capitol Plaza
P.O. Box 1500
Concord, New Hampshire 03302
Facsimile No.: (603) 226-2700

CREDIT LYONNAIS NEW YORK BRANCH, as
Construction/Acquisition Agent

By /s/ MICHAEL F.G. PEPE

Name: Michael F.G. Pepe
Title: Vice President

Address: 1301 Avenue of the Americas
New York, New York 10019
Attention: Martin A. Cunningham
Facsimile No.: (212) 261-3421

LYON CREDIT CORPORATION, as
Term Agent

By /s/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Address: 1266 East Main Street
Stamford, Connecticut 06902
Attention: Mr. Jerome P. Peters, Jr.
Facsimile No.: (203) 328-9339

With a copy to:
Chadbourne & Parke LLP
1200 New Hampshire Ave., N.W.
Washington, D.C. 20036

Attention: Cornelius J. Golden, Jr., Esq.
Facsimile No.: (202) 974-5602

CONSTRUCTION/ACQUISITION LENDERS:

CREDIT LYONNAIS NEW YORK BRANCH

By /s/ MICHAEL F.G. PEPE

Name: Michael F.G. Pepe
Title: Vice President

Pro Rata Share of Aggregate
Construction/Acquisition Loan
Commitment: 100.00%

Address: 1301 Avenue of the Americas
New York, New York 10019
Attention: Martin A. Cunningham
Facsimile No.: (212) 261-3421

TERM LENDERS:

LYON CREDIT CORPORATION

By /s/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Pro Rata Share of Aggregate
Term Loan Commitment:
100.00%

Address: 1266 East Main Street
Stamford, Connecticut 06902
Attention: Mr. Jerome P. Peters, Jr.
Facsimile No.: (203) 328-9339

GUARANTY

This GUARANTY, dated September 12, 1997 (this "Guaranty"), is made by NRG ENERGY, INC., a Delaware corporation ("Guarantor"), in favor of CREDIT LYONNAIS NEW YORK BRANCH, as agent for the Construction/Acquisition Lenders (as defined below) (in such capacity, the "Construction/Acquisition Agent"), and each lender that is or becomes a Construction/Acquisition Lender pursuant to the Loan Agreement (as defined below) (collectively, the "Construction/Acquisition Lenders").

RECITALS

WHEREAS, NEO Landfill Gas, Inc., a Delaware corporation ("Borrower"), the Construction/Acquisition Agent, the Construction/Acquisition Lenders and the other parties thereto have entered into a Construction, Acquisition and Term Loan Agreement, dated the date hereof (as the same may be amended, modified or supplemented, the "Loan Agreement"), pursuant to which the Construction/Acquisition Lenders have agreed to make certain loans to Borrower for the purpose, among others, of financing the construction or acquisition of the Projects (as defined in the Loan Agreement);

WHEREAS, Borrower is wholly-owned by NEO Corporation, a Delaware corporation ("NEO"), and NEO is wholly-owned by Guarantor;

WHEREAS, Guarantor will benefit, directly and indirectly, from the making of the loans by the Construction/Acquisition Lenders to Borrower; and

WHEREAS, it is a condition precedent to the obligations of the Construction/Acquisition Lenders under the Loan Agreement that certain obligations of Borrower thereunder be guaranteed by Guarantor as set forth herein;

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor, intending to be legally bound, hereby agrees for the benefit of the Construction/Acquisition Agent and the Construction/Acquisition Lenders as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. As used in this Guaranty, the terms defined in the preamble and recitals hereto shall have the respective meanings specified therein. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Loan Agreement and such meanings are incorporated herein by reference. The following term shall have the following meaning:

"Obligations" means all obligations and liabilities of Borrower to the Construction/Acquisition Agent and the Construction/Acquisition Lenders, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, which may arise under or in connection with any Construction/Acquisition Loan made pursuant to the Loan Agreement or any document made, delivered or given in connection therewith, including without limitation the principal of, premium (if any) and interest on the Construction/Acquisition Loan Note and the indebtedness represented thereby, whether on account of principal, premium (if any), interest, reimbursement obligations, fees (including without limitation the Construction/Acquisition Loan Availability Fee), indemnities, costs and expenses (including without limitation all costs and expenses required to be paid by Borrower pursuant to

Sections 2.2(b), 2.5 and 8.11 of the Loan Agreement) or otherwise (including without limitation such interest or other charges as would have accrued on any portion of the Obligations but for the commencement of any bankruptcy or insolvency proceedings), it being the intention of Guarantor, the Construction/Acquisition Agent and the Construction/Acquisition Lenders that the Obligations that are guaranteed by Guarantor pursuant to this Guaranty be determined without regard to any rule of law or order that may relieve Borrower of any portion of such Obligations. Construction/Acquisition Loans that have converted to Term Loans pursuant to the Loan Agreement are not Obligations.

ARTICLE II
GUARANTY

Section 2.1 Unconditional Guaranty. Guarantor hereby unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety, to the Construction/Acquisition Agent and the Construction/Acquisition Lenders the prompt, punctual and complete payment when due, whether at the stated maturity, on acceleration or otherwise, and the prompt, punctual and complete performance when owing, of the Obligations, irrespective of (a) the validity, legality or enforceability of the Obligations or any other agreement or instrument relating thereto or (b) any other circumstance that might otherwise constitute a defense to this Guaranty; provided, that this Guaranty shall be limited to the maximum amount that may be guaranteed by Guarantor without this Guaranty being rendered or deemed void or voidable, whether for fraudulent conveyance or transfer or otherwise, under applicable law. Each and every default

in the payment or performance of the Obligations shall give rise to a separate cause of action hereunder and separate suits may be brought hereunder as each cause of action arises.

Section 2.2 No Subrogation. Notwithstanding any payment or payments made by Guarantor hereunder or any set-off or application of funds of Guarantor by the Construction/Acquisition Agent or the Construction/Acquisition Lenders, Guarantor hereby waives any and all rights to which it may be entitled, by operation of law or otherwise, upon making any payment hereunder (a) to be subrogated to any of the rights of the Construction/Acquisition Agent or the Construction/Acquisition Lenders against Borrower or any other Person or in any Collateral or other collateral security or guaranty or right of offset held by the Construction/Acquisition Agent or the Construction/Acquisition Lenders for the payment of any Obligations or (b) to seek any reimbursement or contribution from Borrower or any other Person in respect to any payment, set-off or application of funds made by or for the account of Guarantor hereunder.

Section 2.3 No Effect on Guaranty. The obligations of Guarantor under this Guaranty shall not be altered, limited, impaired or otherwise affected by:

(a) any rescission of any demand for payment or performance of any of the Obligations or any failure by the Construction/Acquisition Agent or the Construction/Acquisition Lenders to make any such demand on Borrower, Guarantor or any other Person or to collect any payment from Borrower, Guarantor or any other Person or any release of Borrower or any other Person;

(b) any renewal, extension, modification, amendment, acceleration, compromise, waiver, indulgence, rescission, discharge, surrender or release, in whole or in part, of the Loan Agreement or the Obligations or any other instrument or agreement evidencing, relating to, securing or guaranteeing any of the Obligations, or the liability of any party to any of the foregoing or for any part thereof or any collateral security therefor or guaranty thereof;

(c) the validity, legality or enforceability of any of the Obligations or of the Loan Agreement or any other instrument or agreement evidencing, relating to, securing or guaranteeing any of the

Obligations;

(d) any failure by the Construction/Acquisition Agent or the Construction/Acquisition Lenders to protect, secure, perfect, record, insure or enforce any Security Document or Collateral;

(e) any act or omission of the Construction/Acquisition Agent or the Construction/Acquisition Lenders relating in any way to the Obligations or to Borrower, including without limitation any failure to bring an action against any party liable on the Obligations, or any party liable on any guaranty of the Obligations, or any party that has furnished security for the Obligations, or to resort to any collateral or collateral of any other Person;

(f) any defense, set-off or counterclaim that may at any time be available to or be asserted by or on behalf of Borrower, Guarantor or any other Person against the Construction/Acquisition Agent or the Construction/Acquisition Lenders or any circumstance that constitutes, or might be construed to constitute, an equitable or legal discharge of Borrower, Guarantor or any other Person for any of the Obligations, in bankruptcy or in any other instance;

(g) any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Borrower, Guarantor or any other Person or any defense that Borrower or any other guarantor may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding;

(h) any change, whether direct or indirect, in Guarantor's relationship to Borrower, including without limitation any such change by reason of any merger or any sale, transfer, issuance or other disposition of any stock of, membership interest in or other equity interest in Borrower, Guarantor or any other Person;

(i) the absence of any notice to, or knowledge by, Guarantor of the existence or occurrence of any matter or event set forth in this Section 2.3;

(j) any taking, exchange, release or non-perfection or any manner of application of collateral or proceeds thereof or any manner of sale or other disposition of collateral;

(k) any failure to pay any tax that may be payable with respect to the payment of the Obligations by Guarantor or any failure to obtain any authorization or approval from or other action by, or to notify or file with, any Governmental Instrumentality required in connection with the payment of the Obligations by Guarantor;

(l) the termination of the legal existence of Borrower or Guarantor, or the termination of any legal obligation of Borrower to discharge the Obligations undertaken or purported to be undertaken by it or on its behalf (other than to the extent of payment or performance of the Obligations by or on behalf of Borrower); or

(m) any impossibility or impracticality of performance, illegality, force majeure, any action or nonaction of government, or any other circumstance that might otherwise constitute a legal or equitable defense available to or resulting in the discharge of a surety or guarantor or any other circumstance, event or

happening whatsoever, whether foreseen or unforeseen and whether similar or dissimilar to anything referred to above in this Section 2.3.

Section 2.4 Continuing Guaranty. Guarantor further agrees that this Guaranty constitutes a present, absolute and continuing guaranty of prompt, punctual and complete payment and performance when due of the Obligations, and not of collection only, and waives any right to require that any resort be had by the Construction/Acquisition Agent or the Construction/Acquisition Lenders, after demand for such payment being made upon Borrower by the Construction/Acquisition Agent or the Construction/Acquisition Lenders, to the Construction/Acquisition Agent's and the Construction/Acquisition Lenders' rights against any other Person, or any other right or remedy available to the Construction/Acquisition Agent or the Construction/Acquisition Lenders by contract, applicable law or otherwise. The obligations of Guarantor under this Guaranty are unconditional, direct and completely independent of the obligations of any other Person and shall not be conditioned or contingent upon the pursuit by the Construction/Acquisition Agent or the Construction/Acquisition Lenders at any time of any right or remedy against Borrower or against any other Person that may be or become liable in respect of all or any part of the Obligations or against any collateral security or guaranty therefor. A separate cause of action or separate causes of action may be brought and prosecuted against Guarantor without the necessity of joining Borrower or any other party or previously proceeding with or exhausting any other remedy against any other Person who might have become liable for the Obligations or any part thereof or of realizing upon any security held by or for the benefit of the Construction/Acquisition Agent and the Construction/Acquisition Lenders.

Section 2.5 Obligations Unconditional. The obligations of Guarantor under this Guaranty shall be absolute and unconditional irrespective of (i) any lack of validity of the Obligations or any other agreement or instrument relating thereto or (ii) any other circumstance that might otherwise constitute a defense to this Guaranty and shall remain in full force and effect until the

Obligations have been indefeasibly satisfied by payment and performance in full, or release by the Construction/Acquisition Agent and the Construction/Acquisition Lenders and, to the extent permitted by law, such Obligations shall not be affected, modified, released or impaired by any state of facts or the happening from time to time of any event whatsoever, whether or not with notice to, or the consent of, Guarantor.

Section 2.6 Term and Reinstatement of Guaranty. This Guaranty will terminate on the date that is the later of (i) October 30, 1998 and (ii) the date on which all Obligations (including without limitation all default interest thereon) have been indefeasibly paid in full. Notwithstanding the foregoing, this Guaranty shall continue in full force and effect, or be reinstated, as the case may be, if at any time any payment or performance hereunder, or any part thereof, of the Obligations is subsequently invalidated, declared to be fraudulent or preferential, avoided, rescinded, set aside or must otherwise be restored or returned by the Construction/Acquisition Agent or the Construction/Acquisition Lenders or any other Person to Borrower or its representatives or to a trustee, receiver, assignee for the benefit of creditors or any other party under any bankruptcy act or code, state or federal law or common law or equitable doctrine, for any reason including as a result of any insolvency, bankruptcy or reorganization proceeding with respect to Borrower or Guarantor, all as though such payment had not been made.

Section 2.7 Financial Condition of Borrower has no Effect on Guaranty. Borrower may borrow the Loans from the Construction/Acquisition Lenders without notice to or authorization from Guarantor regardless of the financial or other condition of Borrower at the time of such borrowing. None of the Construction/Acquisition Agent or the Construction/Acquisition Lenders shall have any obligation to disclose or discuss with Guarantor its assessment of the financial or other condition of Borrower. Guarantor confirms that no representation has been made to the Guarantor concerning the financial

condition of Borrower by the Construction/Acquisition Agent or the Construction/Acquisition Lenders.

Section 2.8 No Waiver or Set-Off. No act of commission or omission of any kind or at any time upon the part of Borrower, any of its successors and assigns or the Construction/Acquisition Agent or the Construction/Acquisition Lenders in respect of any matter whatsoever shall in any way impair the rights of the Construction/Acquisition Agent and the Construction/Acquisition Lenders to enforce any right, power or benefit under this Guaranty, and no set-off, counterclaim, reduction or diminution of any obligation, or any defense of a surety or guarantor that Guarantor have or may have against Borrower, the Construction/Acquisition Agent, the Construction/Acquisition

Lenders or any assignee or successor thereof shall be available hereunder to Guarantor.

Section 2.9 Demands for Payment; Payment. Demands by the Construction/Acquisition Agent for payment of amounts due pursuant to Sections 2.1 and 7.1 may be made on any number of occasions and without any demand for payment given to Borrower. Each demand shall be in writing, shall state the amount owing and shall be effective as of the date given in accordance with Section 7.6. Within five Business Days of giving such a demand in accordance with Section 7.6, dated and signed by an authorized officer of the Construction/Acquisition Agent setting forth the amount of the Obligations at the time owing, Guarantor shall make such payment to or as directed to the Construction/Acquisition Agent and such payment shall not be withheld for any reason.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties. Guarantor represents and warrants that as of the date hereof:

(a) It is a corporation duly organized, validly existing and in good standing under the laws of State of Delaware and has the corporate power, authority and legal right to execute, deliver and carry out the terms and provisions of this Guaranty.

(b) The execution, delivery and performance by Guarantor of this Guaranty have been duly authorized by all necessary corporate action.

(c) The execution, delivery and performance by Guarantor of this Guaranty do not and will not (i) require any consent or approval of any shareholder of Guarantor or Government Instrumentality that has not been obtained and which remains valid, (ii) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Guarantor, or (iii) result in a breach of or constitute a default under any material agreement binding upon Guarantor.

(d) This Guaranty constitutes a valid and legally binding agreement of Guarantor, enforceable in accordance with its terms except as the enforceability of this Guaranty may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar

laws affecting creditors' rights generally and by general principles of equity.

(e) The audited consolidated balance sheet of Guarantor and its subsidiaries as of December 31, 1996 and the related audited consolidated statements of income, cash flows and changes in stockholders' equity accounts for the fiscal year then ended and the unaudited consolidated balance sheet of Guarantor and its subsidiaries as of June 30, 1997 and the related unaudited consolidated statements of income, cash flows and changes in stockholders' equity accounts for the six months then ended, certified by the chief financial or accounting officer of Guarantor, copies of which have been delivered to the Construction/Acquisition Agent, fairly present, in conformity with GAAP except as otherwise expressly noted therein and except with respect to footnotes in all unaudited financial statements, the consolidated financial position of Guarantor and its subsidiaries as of such dates and their consolidated results of operations and changes in financial position for such fiscal periods, subject (in the case of the unaudited balance sheet and statements) to changes resulting from audit and normal year-end adjustments.

(f) Since December 31, 1996, there has been no material adverse change in the business, consolidated financial position or consolidated results of operations of Guarantor and its subsidiaries, considered as a whole.

(g) There is no action, suit or proceeding pending against Guarantor or any of its subsidiaries, or to the knowledge of Guarantor threatened against Guarantor or any of its subsidiaries, before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision that could materially adversely affect the business, consolidated financial position or consolidated results of operations of Guarantor and its subsidiaries taken as a whole or that in any manner draws into question the validity of this Guaranty or any other Document to which Guarantor is or will be a party.

(h) Guarantor and its subsidiaries have filed or caused to be filed all United States federal income tax returns and all other material domestic tax returns which to the knowledge of Guarantor are required to be filed by them and have paid or provided for the payment of, before the same become delinquent, all taxes due pursuant to such returns or pursuant to any assessment received by Guarantor or any subsidiary, other than those taxes contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of Guarantor and its subsidiaries in

respect of taxes are, in the reasonable opinion of Guarantor, adequate to the extent required by GAAP.

ARTICLE IV
AFFIRMATIVE COVENANTS

Section 4.1 Affirmative Covenants. Guarantor covenants and agrees that it will, unless the Construction/Acquisition Lenders otherwise consent in writing:

(a) Reporting Requirements. Furnish to the Construction/Acquisition Agent and each Construction/Acquisition Lender:

(i) (A) within 60 days after the end of each of the first three fiscal quarters of each fiscal year of Guarantor, a copy of Guarantor's quarterly unaudited consolidated financial statements as of the end of and for such quarter, and (B) within 120 days after the end of each fiscal year of Guarantor, a copy of Guarantor's annual audited consolidated financial statements as of the end of and for such year;

(ii) simultaneously with the delivery of each of the annual or quarterly reports referred to in paragraph (i) above, a certificate of the chief financial officer or chief accounting officer of Guarantor in a form acceptable to the Construction/Acquisition Agent stating whether there exists on the date of such certificate any Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, and, if so, setting forth the details thereof and the action which Guarantor has taken and proposes to take with respect thereto;

(iii) as soon as possible and in any event within five days after a change in, or issuance of, any rating of any of the Guarantor's senior unsecured long-term debt by Standard & Poor's Rating Services or Moody's Investors Services, Inc., notice to the Construction/Acquisition Agent of such change;

(iv) as soon as possible and in any event within five days after an executive officer of Guarantor obtaining knowledge thereof, notice of the occurrence of any Event of Default or any event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, continuing on the date of such notice, and a statement of the chief financial officer of Guarantor

setting forth details of such Event of Default or event and the action that Guarantor has taken and proposes to take with respect thereto;

(v) such other information respecting the condition or operations, financial or otherwise, of Guarantor or any of its subsidiaries as any Construction/Acquisition Lender through the Construction/Acquisition Agent may from time to time reasonably request.

(b) Compliance with Laws, Etc. Comply, and cause each of its subsidiaries to comply, with all applicable laws, rules, regulations and orders to the extent noncompliance therewith would have a material adverse effect on Guarantor and its subsidiaries taken as a whole, such compliance to include without limitation compliance with Environmental Laws and the paying before the same become delinquent of all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith.

(c) Maintenance of Insurance. Maintain insurance, and cause Borrower and the Affiliates to maintain, with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties as Guarantor or such other Person.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of Borrower and the Affiliates to preserve and maintain, its legal existence, rights and franchises; provided, that this Section 4.1(d) shall not apply to any transaction or matter permitted by Section 5.1(a) or (b); provided, that Guarantor, Borrower and the Affiliates shall not be required to preserve any right or franchise if Guarantor or such other Person reasonably determines that the preservation thereof is no longer desirable in the conduct of the business of Guarantor or such other Person, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Construction/Acquisition Lenders.

(e) Visitation Rights. At any reasonable time and from time to time, after reasonable notice, permit the Construction/Acquisition Agent or any of the Construction/Acquisition Lenders or any agent or representative thereof to examine the records and books of account of, and visit the properties of, Guarantor, Borrower and the Affiliates, and to discuss the affairs, finances and accounts of Guarantor and any of such other Persons with any of their respective officers or directors.

ARTICLE V
NEGATIVE COVENANTS

Section 5.1 Negative Covenants. Guarantor will not at any time, without the prior written consent of the Construction/Acquisition Lenders:

(a) Mergers, Etc. Merge or consolidate with or into any Person unless (i) Guarantor is the survivor or (ii) the surviving Person, if not Guarantor, is organized under the laws of the United States or a state thereof and assumes all obligations of Guarantor under this Guaranty and executes and delivers to the Construction/Acquisition Agent documents reasonably satisfactorily in form and substance to the Construction/Acquisition Agent pursuant to which such Person acknowledges and assumes all obligations of Guarantor hereunder; provided, in each case that immediately after giving effect to such proposed transaction, no Event of Default or event which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default would exist or result.

(b) Disposition of Assets. Lease, sell, transfer or otherwise dispose of, voluntarily or involuntarily, all or substantially all of its assets.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.1 Events of Default. The occurrence and continuance of any of the following events shall constitute an "Event of Default":

(a) Any representation or warranty made by Guarantor or any of its officers under or in connection with any Document proves to have been incorrect in any material respect when made or deemed made.

(b) Guarantor fails to perform or observe any term, covenant or agreement contained in Articles IV and V or fails to perform or observe any other term, covenant or agreement contained in any Document on its Part to be performed or observed and such failure remains unremedied for five (5) days after the occurrence thereof; provided, that if such failure can not be remedied within such five (5) day period and if Guarantor is diligently seeking to remedy such failure, and if such failure is reasonably likely to be remedied within thirty (30) days after the initial five

(5) day period, then Guarantor shall have an additional thirty (30) days to remedy such failure.

(c) Guarantor or any of its subsidiaries fails to pay any principal of or premium or interest on any Indebtedness which is outstanding in the principal amount of at least $1,000,000 in the aggregate when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such

Indebtedness; or any other event occurs or condition exists under any agreement or instrument relating to any such Indebtedness and continues after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate the maturity of such Indebtedness; or any such Indebtedness is declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment or as a result of the giving of notice of a voluntary prepayment), prior to the stated maturity thereof.

(d) Guarantor or any of its subsidiaries generally fails to pay its debts as such debts become due, or admits in writing its inability to pay its debts generally, or makes a general assignment for the benefit of creditors; or any proceeding is instituted by or against Guarantor or any of its subsidiaries seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for the relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), remains undismissed or unstayed for a period of 60 days; or Guarantor or any of its subsidiaries takes any corporate action to authorize any of the actions set forth above in this paragraph (d).

(e) Any judgment, decree or order for the payment of money in excess of $1,000,000 is rendered against Guarantor or any of its subsidiaries and remains unsatisfied and either (i) enforcement proceedings have been commenced by any creditor upon such judgment, decree or order or (ii) there shall be any period of 60 consecutive days during which a stay of enforcement of such judgment, decree or order, by reason of a pending appeal or otherwise, shall not be in effect.

(f) Any provision of this Guaranty for any reason is not or ceases to be valid and binding on Guarantor or Guarantor so states in writing.

ARTICLE VII
MISCELLANEOUS

Section 7.1 Costs and Expenses. Except as herein otherwise expressly provided, Guarantor covenants and agrees to pay or reimburse the Construction/Acquisition Agent and the Construction/Acquisition Lenders upon request for all reasonable expenses, disbursements, fees, costs and commissions incurred or made by the Construction/Acquisition Agents or the Construction/Acquisition Lenders (including the reasonable compensation and expenses and disbursements of counsel and of persons not regularly in their employ) in connection with (i) the enforcement of or attempt to enforce, or collection of or attempt to collect any amount due under, this Guaranty or (ii) any waiver, extension, amendment or modification of any provision of this Guaranty.

Section 7.2 Election of Remedies. Each and every right, power and remedy herein given to the Construction/Acquisition Agent and the Construction/Acquisition Lenders, or otherwise existing, shall be cumulative and not exclusive, and shall be in addition to all other rights, powers and remedies now or hereafter granted or otherwise existing. Each and every right, power and remedy, whether specifically herein given or otherwise existing, may be exercised from time to time and as often and in such order as may be deemed expedient by the Construction/Acquisition Agent or the Construction/Acquisition Lenders.

Section 7.3 Effect of Delay or Omission to Pursue Remedy. No

single or partial waiver by the Construction/Acquisition Agent or the Construction/Acquisition Lenders of any right, power or remedy, or delay or omission by the Construction/Acquisition Agent or the Construction/Acquisition Lenders in the exercise of any right, power or remedy shall impair any such right, power or remedy or operate as a waiver thereof or of any other right, power or remedy then or thereafter existing. Any waiver given by the Construction/Acquisition Agent or the Construction/Acquisition Lenders of any right, power or remedy in any one instance shall only be effective in that specific instance and only for the purpose for which given, and will not be construed as a waiver of any right, power or remedy on any future occasion.

Section 7.4 Guarantor's Waivers. Guarantor waives any and all promptness, diligence, notice of the creation or acceptance, any other notice, renewal, extension or accrual of any of the Obligations and notice of or proof of

reliance by the Construction/Acquisition Agent or the Construction/Acquisition Lenders upon this Guaranty or acceptance of this Guaranty or any action taken or omitted in reliance hereon. The Obligations, and any of them, shall conclusively be deemed to have been created, contracted, incurred, renewed, extended, amended or waived in reliance upon this Guaranty and all dealings among Guarantor, Borrower, the Construction/Acquisition Agent and the Construction/Acquisition Lenders shall likewise be conclusively presumed to have been had or consummated in reliance upon this Guaranty. Guarantor further waives diligence, presentment, demand for payment or performance, notice, any requirement that any right or power be exhausted or any action be taken against Borrower or Guarantor or against any Collateral, protest of all promissory notes or other instruments included in or evidencing any of the Obligations or Collateral, and all other demands in connection with the delivery, acceptance, performance, default or enforcement of any such promissory note or other instrument or this Guaranty or any other requirement that the Construction/Acquisition Agent or the Construction/Acquisition Lenders protect, secure, perfect or insure any security interest or lien on any property subject thereto or exhaust any right or take any action against Borrower, Guarantor or any other Person, or any Collateral.

Section 7.5 Amendment. This Guaranty may not be modified, amended, terminated or revoked, in whole or in part, except by an agreement in writing signed by the Construction/Acquisition Agent and Guarantor. No waiver of any term, covenant or provision of this Guaranty, or consent given hereunder, shall be effective unless given in writing by the Construction/Acquisition Agent.

Section 7.6 Notices. Unless otherwise specifically provided herein, any notice or other communication required or permitted to be given shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by overnight courier service or United States mail (return receipt requested) and shall be deemed to have been given (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 p.m. (New York, New York time) or, if not, on the next succeeding Business Day; (c) if delivered by reputable overnight courier, two (2) days after delivery to such courier properly addressed; or (d) if by U.S. Mail, four (4) Business Days after deposit in the United States mail, with postage prepaid and properly addressed.

Notices shall be addressed as follows:

If to Guarantor:

NRG ENERGY, INC.
1221 Nicollet Mall

Minneapolis, Minnesota 55403
Attention: Executive Director Finance
Telecopy: (612) 373-5336

With a copy to:

NRG ENERGY, INC.
1221 Nicollet Mall
Minneapolis, Minnesota 55403
Attention: General Counsel
Telecopy: (612) 373-5392

If to the Construction/Acquisition Agent or any Construction/Acquisition Lender:

CREDIT LYONNAIS NEW YORK BRANCH
1301 Avenue of the Americas
New York, New York 10019
Attention: Mr. Martin A. Cunningham
Telecopy: (212) 261-7887

With a copy to:

CHADBOURNE & PARKE LLP
1200 New Hampshire Avenue, N.W.
Washington, D.C. 20036
Attention: Cornelius J. Golden, Jr., Esq.
Telecopy: (202) 974-5602

or in any case, to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this Section 7.6. A notice not given as provided above shall, if it is in writing, be deemed given if and when actually received by the party to whom given.

Section 7.7 Successors and Assigns. This Guaranty shall be binding upon and shall inure to the benefit of Guarantor, the Construction/Acquisition Agent and the Construction/Acquisition Lenders and their respective successors and permitted assigns. Notwithstanding the foregoing, Guarantor shall have no right to assign its rights or obligations hereunder (whether by operation of law or otherwise) without the prior written consent of the Construction/Acquisition Agent and any purported transfer without such prior written consent shall be void. No assignment by Guarantor of any rights or obligations under this Guaranty shall release Guarantor therefrom unless the

Construction/Acquisition Agent has consented to such release in a writing specifically referring to the obligation from which Guarantor is to be released.

Section 7.8 Headings. The article and section headings used in this Guaranty are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

Section 7.9 CONSENT TO JURISDICTION. ALL LEGAL ACTIONS OR PROCEEDINGS BROUGHT AGAINST GUARANTOR WITH RESPECT TO THIS GUARANTY MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS GUARANTY GUARANTOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES THE JURISDICTION OF THE AFORESAID COURTS AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS GUARANTY. GUARANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES ANY CLAIM OR DEFENSE IN ANY SUCH ACTION OR PROCEEDING BASED ON ANY ALLEGED LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS OR ANY SIMILAR BASIS. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE CONSTRUCTION/ACQUISITION AGENT OR THE CONSTRUCTION/ACQUISITION LENDERS TO BRING PROCEEDINGS AGAINST GUARANTOR IN THE COURTS OF ANY OTHER JURISDICTION OR TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW.

Section 7.10 GOVERNING LAW. THIS GUARANTY WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, OTHER THAN CONFLICT OF LAWS PRINCIPLES THAT WOULD APPLY THE LAWS OF ANOTHER JURISDICTION,

AND EXCEPT TO THE EXTENT THAT THE LAWS OF ANOTHER JURISDICTION ARE MANDATORILY APPLICABLE.

Section 7.11 WAIVER OF JURY TRIAL. GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH THIS GUARANTY.

Section 7.12 AGENT FOR SERVICE OF PROCESS. GUARANTOR HEREBY AGREES TO DESIGNATE, APPOINT AND EMPOWER CT CORPORATION SYSTEM, NEW YORK, NEW YORK, AS ITS AUTHORIZED AGENT TO RECEIVE FOR AND ON ITS BEHALF SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER LEGAL PROCESS IN ANY

ACTION, SUIT OR PROCEEDING IN THE STATE OF NEW YORK. AS LONG AS THIS GUARANTY REMAINS IN FORCE, GUARANTOR SHALL MAINTAIN A DULY APPOINTED AGENT FOR THE SERVICE OF SUMMONS, COMPLAINT AND OTHER LEGAL PROCESS IN NEW YORK, NEW YORK, FOR PURPOSES OF ANY LEGAL ACTION, SUIT OR PROCEEDING THE CONSTRUCTION/ACQUISITION AGENT OR THE CONSTRUCTION/ACQUISITION LENDERS MAY BRING IN RESPECT OF THIS GUARANTY. GUARANTOR SHALL KEEP THE CONSTRUCTION/ACQUISITION AGENT ADVISED OF THE IDENTITY AND LOCATION OF SUCH AGENT. GUARANTOR ALSO IRREVOCABLY CONSENTS, IF FOR ANY REASON GUARANTOR'S AUTHORIZED AGENT FOR SERVICE OF PROCESS OF SUMMONS, COMPLAINT AND OTHER LEGAL PROCESS IN ANY SUCH ACTION, SUIT OR PROCEEDING IS NOT PRESENT IN NEW YORK, NEW YORK, THAT SERVICE OF SUCH PAPERS MAY BE MADE OUT OF THOSE COURTS BY MAILING COPIES OF THE PAPERS BY DELIVERY THEREOF TO IT BY HAND OR BY MAIL TO THE ADDRESS SET FORTH IN SECTION 7.6. SERVICE IN THE MANNER PROVIDED IN THIS SECTION 7.12 IN ANY SUCH ACTION, SUIT OR PROCEEDING WILL BE DEEMED PERSONAL SERVICE, WILL BE ACCEPTED BY GUARANTOR AS SUCH AND WILL BE VALID AND BINDING UPON GUARANTOR FOR ALL PURPOSES OF ANY SUCH ACTION, SUIT OR PROCEEDING.

Section 7.13 Severability. If any provision hereof or of any promissory note or other instrument evidencing part or all of the Obligations is invalid or unenforceable in any jurisdiction, the other provisions hereof or thereof shall remain in full force and effect in such jurisdiction and the remaining provisions hereof shall be liberally construed in favor of the Construction/Acquisition Agent and the Construction/Acquisition Lenders in order to carry out the provisions hereof. The invalidity or unenforceability of any provision of this Guaranty in any jurisdiction shall not affect the validity or enforceability of any such provision in any other jurisdiction.

Section 7.14 Entire Agreement. This Guaranty constitutes the entire agreement and understanding of Guarantor with respect to the subject matter hereof and supersedes any and all prior and contemporaneous contracts, negotiations, agreements and understandings of Guarantor relating to the subject matter herein contained, whether oral or written. Guarantor hereby expressly acknowledges that it has not relied, in making this Guaranty, upon any statement or representation, not contained herein, made by any other party, including without limitation the Construction/Acquisition Agent, the Construction/Acquisition Lenders and Borrower.

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be executed and delivered on its behalf on the date first written above.

NRG ENERGY, INC.

By /s/

Name: Valorie A. Knudsen
Title: Vice President Finance

CONSTRUCTION, ACQUISITION AND TERM LOAN AGREEMENT

dated September 12, 1997

by and among

MINNESOTA METHANE LLC
as Borrower,

the Lenders Named on the Signature Pages
to this Agreement,

CREDIT LYONNAIS NEW YORK BRANCH
as Construction/Acquisition Agent,

and

LYON CREDIT CORPORATION,
as Term Agent

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EXHIBIT 4.1(g)	Required Approvals
EXHIBIT 4.1(h)(iii)	Legal Description of the Sites
EXHIBIT 5.1(l)(iii)	Form of Monthly Construction Report
EXHIBIT 5.1(l)(iv)	Form of Quarterly Report and Certificate
EXHIBIT 5.1(l)(v)	Form of Annual Report and Certificate
EXHIBIT 8.7(c)	Form of Commitment Transfer Supplement

CONSTRUCTION, ACQUISITION AND TERM LOAN AGREEMENT

This CONSTRUCTION, ACQUISITION AND TERM LOAN AGREEMENT, dated September 12, 1997 (this "Agreement"), is by and among MINNESOTA METHANE LLC, a Wyoming limited liability company ("Borrower"), the lenders named on the signature pages to this Agreement (the "Lenders"), CREDIT LYONNAIS NEW YORK BRANCH, as agent for the Lenders identified as Construction/Acquisition Lenders on the signature pages to this Agreement (together with its successors and assigns in such capacity, the "Construction/Acquisition Agent") and LYON CREDIT CORPORATION, a Delaware corporation, as agent for the Lenders identified as Term Lenders on the signature pages to this Agreement (together with its successors and assigns in such capacity, the "Term Agent").

RECITALS:

WHEREAS, Borrower owns 100% of the outstanding equity of seventeen Gencos (as defined below), each of which owns, or upon the construction or acquisition thereof will own, the energy generation assets relating to a Project (as defined below); and

WHEREAS, Borrower has requested that the Lenders provide a portion of the financing for the construction or acquisition of the Projects and the Lenders are willing to do so on the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in order to induce the Lenders to provide such financing, the parties hereto covenant and agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms used and not otherwise defined in this Agreement have the meanings given to those terms in Schedule X hereto, and the rules of construction set forth in Schedule X govern this Agreement.

ARTICLE II
THE LOANS

Section 2.1 Commitments.

(a) Construction/Acquisition Loan Commitments and Term Loan Commitments. On the terms and subject to the conditions of this Agreement, and in reliance upon the representations, warranties and covenants contained herein, (i) each Construction/Acquisition Lender severally agrees to make the Construction/Acquisition Loans to Borrower in an aggregate amount not to exceed its Pro Rata Share of the Aggregate Construction/Acquisition Loan Commitment and (ii) each Term Lender severally agrees to make the Term Loans to Borrower in an aggregate amount not to exceed its Pro Rata Share of the Aggregate Term Loan Commitment.

(b) Separate Obligations. Each Lender will fund its Pro Rata Share of the Construction/Acquisition Loans and of the Term Loans simultaneously with the other Lenders at the times designated by the applicable Agent pursuant to Section 2.2(d); provided, that the failure of any Lender to fund its Pro Rata Share of a Loan will not affect the obligation of any other Lender to fund its Pro Rata Share of such Loan. No Lender will be responsible for a default by any other Lender in funding its Pro Rata Share of a Loan nor will any Commitment of any Lender be increased or decreased by reason of any such default.

(c) Lender Assurances. Notwithstanding any provision to the contrary contained in Section 2.1(b), Lyon Credit Corporation, in its capacity as a Term Lender, agrees, upon any failure by any other Term Lender to fund such Term Lender's Pro Rata Share of a Term Loan pursuant to Section 2.2(d), to fund such other Term Lender's Pro Rata Share of a Term Loan and, if necessary, Lyon Credit Corporation's Commitment will be deemed to have been increased to accommodate such funding, but not in such an amount as to exceed the Aggregate Term Loan Commitment.

Section 2.2 Funding of the Loans.

(a) The Construction/Acquisition Loans.

(i) Borrower may request one or more Construction/Acquisition Loans relating to one or more Projects to be made on a Construction/Acquisition Loan Date by complying with the following procedure:

(A) First, Borrower will give the Construction/Acquisition Agent at least fifteen (15) Business Days' prior written notice of Borrower's intent to borrow one or more Construction/Acquisition Loans. Such notice will not be binding on Borrower and will (1) specify the proposed Funding Date (which must be a Construction/Acquisition Loan Date), (2) specify the amount and uses of each requested Loan, which shall be in accordance with Section 2.7, and (3) include the certificate and report of the Engineer required by Sections 3.2(a)(iii) and 3.2(a)(ix) and copies of all documents necessary to satisfy the other conditions precedent contained in Section 3.2.

(B) Second, if the Construction/Acquisition Agent does not notify Borrower within ten (10) Business Days after its receipt of the notice given to it pursuant to Section 2.2(a)(i)(A) that a condition precedent contained in Section 3.2 has not been satisfied, then Borrower may deliver to the Construction/Acquisition Agent a Notice of Borrowing, which will be binding on Borrower and will (1) specify the Funding Date (which must be a Construction/Acquisition Loan Date and will be at least five (5) Business Days following the Construction/Acquisition Agent's receipt of the Notice of Borrowing or such shorter time period as the Construction/Acquisition Agent may permit in its sole discretion) and (2) specify the Interest Period for the requested Construction/Acquisition Loans. Borrower may specify only one Interest Period for Construction/Acquisition Loans that are made on a Funding Date and such Interest Period may be one (1), two (2), three (3), six (6), nine (9) or twelve (12) months in duration; provided, that no Interest Period may extend after October 30, 1998.

(ii) Each Construction/Acquisition Loan will be in an initial principal amount not greater than ninety percent (90%) of the aggregate amount of the Qualified Project Construction Costs or Qualified Project Acquisition Costs, as applicable, relating to a Project and evidenced by the invoices delivered to the Engineer pursuant to Sections 3.2(a)(ii) and (iii). Each

Construction/Acquisition Loan will mature on its respective Construction/Acquisition Loan Maturity Date, unless payment thereof is due prior to such date by acceleration, mandatory prepayment or otherwise and unless payment of a portion thereof is agreed to be due on October 30, 1998 pursuant to Section 2.2(g).

(b) Construction/Acquisition Loans to Pay Interest, Fees and Expenses. On each Business Day during the Construction/Acquisition Loan Period on which interest, fees or expenses are due and payable and are not otherwise paid or provided for, Borrower hereby irrevocably authorizes the Construction/Acquisition Lenders, in their sole discretion, to make Construction/Acquisition Loans to Borrower in the aggregate amount of all interest, fees and expenses then due and payable and hereby irrevocably authorizes the Construction/Acquisition Agent to apply the proceeds of such Loans to the payment of such interest, fees and expenses. The Construction/Acquisition Lenders have no obligation to make a Loan for the purposes stated in this Section 2.2(b). No Loan will be made pursuant to this Section 2.2(b) if an Event of Default has occurred and is continuing.

(c) The Term Loans.

(i) Borrower may request one or more Term Loans relating to one or more Projects to be made by complying with the following procedure:

(A) First, Borrower will notify in writing the Construction/Acquisition Agent, the Term Agent and the Engineer at least fifteen (15) days prior to the commencement of the performance tests required to achieve Completion of each Project that is the subject of a proposed Term Loan; provided, that Borrower may not give more than one such notification per calendar month.

(B) Second, following the successful completion of the tests described in Section 2.2(c)(i)(A), Borrower will give the Construction/Acquisition Agent and the Term Agent at least twenty (20) Business Days' prior written notice of Borrower's intent to borrow one or more Term Loans relating to the completed Project or Projects. Such notice will not be binding on Borrower and will (1) specify the proposed Funding Date, (2) specify the amount and uses of each requested Term Loan, which shall be in accordance with Section 2.7, and (3) include the report of the Engineer required by Section 3.3(a)(x) and copies of all documents necessary to satisfy the other conditions precedent contained in Section 3.3 and, if appropriate, Section 3.4.

(C) Third, within ten (10) Business Days of its receipt of the notice and documents described in Section 2.2(c)(i)(B), the Term Agent will notify Borrower in writing of the satisfaction (or waiver) of the conditions precedent to the making of the requested Term Loan or Loans contained in Section 3.3 or, if such conditions precedent have not been satisfied (or waived), the Term Agent will notify Borrower of the deficiencies. If the conditions precedent have not been satisfied (or waived), Borrower may provide such information and documentation as is necessary to satisfy such conditions precedent and the Term Agent will promptly review such information and documentation and notify Borrower in writing of its determination.

(D) Fourth, after receiving notification from the Term Agent that the conditions precedent to the

requested Term Loans have been satisfied or waived, Borrower may deliver to the Term Agent a Notice of Borrowing, which will be binding on Borrower and will (1) specify the Funding Date (which will be at least five (5) Business Days following the Term Agent's receipt of the Notice of Borrowing) and (2) specify the Construction/Acquisition Loan or Loans that are to be converted.

(ii) Irrespective of the aggregate principal amount of the Construction/Acquisition Loan or Loans relating to a single Project that a Term Loan replaces, the initial principal amount of a Term Loan will not be greater than the least of (x) an amount equal to the present value (discounted at the Interest Rate applicable to such Term Loan for a period not to exceed ten (10) years) of two-thirds (66.7%) of the Net Operating Cash projected by the Closing Pro Forma (as updated in preparation for the making of the Term Loan based upon the results of the performance testing of the relevant Project and the information contained in the report of the Engineer) to be produced by the Project corresponding to such Term Loan, (y) an amount equal to seventy percent (70%) of the sum of the cost to construct or acquire such Project, actual reimbursed development expenses, interest on the corresponding Construction/Acquisition Loan, related Closing Costs and all other reasonable costs of Borrower and the Affiliates associated with the acquisition or construction and financing of the Project corresponding to such Term Loan and (z) an amount equal to the remaining amount available under the Aggregate Term Loan Commitment.

(iii) Each Term Loan will mature on its respective Term Loan Maturity Date, unless payment thereof is due prior to such date by acceleration, mandatory prepayment or otherwise.

(d) Funding Procedure. Promptly after receipt of a Notice of Borrowing relating to a Construction/Acquisition Loan or a Term Loan, the applicable Agent will notify each applicable Lender of the proposed Loan or Loans and of such Lender's Pro Rata Share thereof, and each applicable Lender will make available to the applicable Agent at such Agent's main office in

Stamford, Connecticut, or New York Branch, as the case may be, such Lender's Pro Rata Share of the proposed Loan or Loans in immediately available funds no later than 10:00 a.m., New York City time, on the Funding Date. Upon satisfaction or waiver of the applicable conditions precedent set forth in Article III, the applicable Agent will disburse all such amounts made available to it by the Lenders to or for the benefit of Borrower; provided, that in the case of the funding of a Construction/Acquisition Loan, the Construction/Acquisition Agent will disburse to or for the benefit of Borrower only ninety percent (90%) of the requested Loan amount and will retain the remaining ten percent (10%) (the "Construction/Acquisition Holdback Amount") as Collateral to be released to Borrower upon the Term Loan Conversion Date relating to such Construction/Acquisition Loan after payment to the Construction/Acquisition Lenders of accrued interest on such Construction/Acquisition Loan; provided, further, that the proceeds of a Term Loan that results from the conversion of a Construction/Acquisition Loan will be paid first to the Construction/Acquisition Agent in the amount of the aggregate of all unpaid principal and interest of, and fees corresponding to, the Construction/Acquisition Loans that are being converted, and the balance of the proceeds of such Term Loan, if any, will be paid to or for the benefit of Borrower; provided, further, that if pursuant to the restrictions on the initial principal amount of a Term Loan contained in Section 2.2(c)(ii), the principal amount of the Term Loan replacing a Construction/Acquisition Loan is not sufficient to pay in full the outstanding principal amount of the Construction/Acquisition Loan, then the Construction/Acquisition Agent shall apply the Construction/Acquisition Holdback Amount to pay the remaining balance of the Construction/Acquisition Loan in full and then shall release the remaining portion, if any, of the Construction/Acquisition Holdback Amount to Borrower in accordance with the first proviso of this sentence. Unless a Lender has notified the applicable Agent prior to the Funding Date of a Loan that such Lender does not intend to make available its Pro Rata Share of such Loan, the

Agent may assume that such Lender has made such amount available to the Agent on the Funding Date and the Agent may, in its sole discretion, make available to Borrower a corresponding amount on the Funding Date; provided, that the Agent has no obligation to make available to Borrower any amount not actually received from the Lenders. If an Agent makes available to Borrower any Loan amount not received from a Lender, the Agent will be entitled to recover such amount on demand from such Lender, together with interest thereon for each day from the Funding Date that such amount remains unpaid at the customary rate set by the Agent for the correction of errors among banks. If the defaulting Lender does not pay such amount forthwith upon demand by the Agent, the Agent will promptly notify Borrower and Borrower will immediately pay such amount to the Agent, together with interest on such amount at the applicable Interest Rate for each day from the Funding Date that such amount remains unpaid. Any such payment by Borrower will not be deemed a prepayment for purposes of Section 2.8. Each Lender agrees that if it fails to make available or to reimburse an Agent for any amount made available by the Agent on its behalf, it will have no interest in such amount and hereby assigns all of its right, title and interest in such amount to any assignee designated by the Agent. Nothing in this paragraph will be deemed to relieve any Lender of its obligation to fulfill its Commitments hereunder or prejudice any right Borrower may have against any Lender as a result of any default by such Lender.

(e) Continuation of Construction/Acquisition Loans. At least five (5) Business Days prior to the end of each Interest Period of each Construction/Acquisition Loan, Borrower may request in a written notice delivered to the Construction/Acquisition Agent that a Construction/Acquisition Loan be continued with an Interest Period specified by Borrower; provided, that no Interest Period may extend beyond October 30, 1998. Such written notice will specify (i) the proposed date of continuation, (ii) the Construction/Acquisition Loan or Loans being continued and (iii) the new Interest Period for each Construction/Acquisition Loan being continued. A Construction/Acquisition Loan may be continued or converted only at the end of its Interest Period. If Borrower does not deliver such a request to the Construction/Acquisition Agent, the Construction/Acquisition Agent will continue each Construction/Acquisition Loan with the same Interest Period; provided, that if such same Interest Period would extend beyond October 30, 1998, then the Construction/Acquisition Agent will continue the Construction/Acquisition Loan with the longest possible Interest Period that does not extend beyond October 30, 1998.

(f) Notices of Borrowing. Each Notice of Borrowing will be irrevocable.

(g) Option to Extend Maturity Date of Portion of Construction/Acquisition Loan. If, pursuant to the restrictions on the initial principal amount of a Term Loan contained in Section 2.2(c)(ii), the principal amount of a Term Loan replacing a Construction/Acquisition Loan, plus the amount of the Construction/Acquisition Holdback Amount applied pursuant to Section 2.2(d) is not sufficient to pay in full the outstanding principal amount of the Construction/Acquisition Loan, and provided that the long-term unsecured debt of Guarantor is rated BBB - or higher by Standard & Poor's, then Borrower may at its option choose to extend the maturity date of such unpaid principal amount of the Construction/Acquisition Loan until October 30, 1998 with one or more Interest Periods (not extending beyond October 30, 1998) chosen by Borrower in accordance with Section 2.2(e) and 2.3(b).

Section 2.3 Interest.

(a) Interest Rates.

(i) Each Loan will bear interest on the unpaid principal amount thereof from the date made to but excluding maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) at the following rates:

(A) each Construction/Acquisition Loan will bear interest during each Interest Period applicable thereto at a rate per annum equal to LIBOR as determined for such Interest Period plus one hundred (100) basis points, computed on each date on which interest is due on any Construction/Acquisition Loan on the basis of a year of 360 days for the actual number of days elapsed; and

(B) subject to adjustment pursuant to Section 2.3(a)(iv), each Term Loan will bear interest at a fixed rate per annum equal to nine and thirty-five one-hundredths percent (9.35%), payable on the basis of a year of 360 days for the actual number of days elapsed.

(ii) LIBOR during a particular Interest Period will be determined by the Construction/Acquisition Agent on the Interest Rate Determination Date with respect to such Loan on the basis of the Interest Period and the amount of the Loan.

(iii) Each determination by an Agent of the Interest Rate applicable to any Loan pursuant to this Section 2.3(a) will be conclusive and binding on the parties absent manifest error, in which case the Interest Rate will be corrected and all payments of Borrower affected by the incorrect Interest Rate determination will be appropriately adjusted.

(iv) The Interest Rate applicable to each Term Loan will be increased as necessary as of October 30, 1998, to reflect any increased cost to the Term Agent and the Term Lenders resulting from any variation between the actual Funding Dates of the Term Loans and the projected Funding Dates of the Term Loans contained in the Closing Pro Forma as of the Closing Date. The Interest Rate will be increased in an amount sufficient to reimburse the Term Agent and the Term Lenders for any increased cost to any of them arising from the contracts or other arrangements entered into by the Term Agent and the Term Lenders with Credit Lyonnais New York Branch or any other Person to provide a fixed rate of interest on the Term Loans. Should Borrower and the Term Lenders

be unable to agree on the increase in the Interest Rate, then Borrower and the Term Lenders shall appoint a firm of independent certified public accountants (which shall be a "Big 6" firm and which shall not at the time have an accounting relationship with any of Borrower, the Term Agent and the Term Lenders) to determine the appropriate increase in the Interest Rate, and the fees of such accounting firm shall be paid one-half by Borrower and one-half by the Term Lenders.

(b) Interest Periods.

(i) Each Interest Period with respect to a Construction/Acquisition Loan (A) will begin on and include the day on which such Loan is made, or the day on which such Loan is continued (which will be the day after the last day of the Interest Period of the continued Loan) and (B) will not extend beyond October 30, 1998.

(ii) Subject to Section 2.3(b)(i), (A) Borrower may select an Interest Period of one (1), two (2), three (3), six (6), nine (9) or twelve (12) months, (B) an Interest Period that would otherwise end on a day that is not a LIBOR Business Day will end on the next succeeding LIBOR Business Day, unless such day falls in the next calendar month, in which case such Interest Period will end on the next preceding LIBOR Business Day, and (C) an Interest Period that begins on the last LIBOR Business Day of a calendar month or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, will end on the last LIBOR Business Day of the calendar month at the end of such Interest Period.

(c) Interest Payment Dates. Interest will be payable as follows:

(i) all accrued and unpaid interest on all outstanding Construction/Acquisition Loans will be payable in arrears on the last day of the Interest Period with respect to such Loan.

(ii) all accrued and unpaid interest on all outstanding Term Loans will be payable in arrears on each January 31, April 30, July 31 and October 31, commencing on the first such date following the Funding Date of the first Term Loan;

(iii) all accrued and unpaid interest due on any Loan will be payable in full upon the maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) or prepayment of such Loan; and

(iv) after maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise), interest on any Loan will be payable upon demand.

(d) Default Interest. Overdue principal and overdue interest in respect of any Loan and any other amount payable hereunder or under any other Credit Document by Borrower or any Affiliate that is overdue will bear interest at a rate per annum (the "Default Rate") equal to two percent (2%) in excess of the rate of interest then-applicable to such Loan or, if no rate of interest is applicable to such overdue amount, the highest rate of interest applicable to any outstanding Loan. Upon the occurrence and during the continuance of an Event of Default, all Loans and all other amounts owing by Borrower and the Affiliates will bear interest at the Default Rate.

(e) Limitation. Notwithstanding any other provision of the Credit Documents, if the rate of interest on any obligation of Borrower or any Affiliate under any Credit Document at any time exceeds the highest rate permitted by Applicable Law, the rate of interest on such obligation will be deemed to be the highest rate permitted by Applicable Law.

Section 2.4 Notes. Borrower will execute and deliver to each Construction Lender on the Closing Date a Construction/Acquisition Loan Note substantially in the form of Exhibit 2.4(a) and to each Term Lender on each Term Loan Conversion Date a Term Loan Note substantially in the form of Exhibit 2.4(b). Each Construction/Acquisition Loan Note will be dated the Closing Date, will be in the principal amount of such Construction Lender's Construction/Acquisition Loan Commitment and will evidence such Construction Lender's Pro Rata Share of the Construction/Acquisition Loans made hereunder. Each Term Loan Note will be dated the applicable Term Loan Conversion Date, will be in the principal amount of such Term Lender's Term Loan Commitment and will evidence such Term Lender's Pro Rata Share of the Term Loans made hereunder. Each Note will have other appropriate insertions and will be subject to and entitled to the benefits of the Credit Documents. On each Funding Date relating to a Construction/Acquisition Loan, each Construction/Acquisition Lender is authorized to make a notation on the schedule attached to the relevant Note indicating the date, the amount of such Lender's Pro Rata Share of such Loan and the interest rate of such Loan. The information set forth in such schedule will be prima facie evidence of the outstanding principal amount of such Note and of the interest due thereon. Failure to make any such notation will not limit or affect the obligations of Borrower under the Notes or any other Credit Document.

Section 2.5 Fees. Borrower will pay to the Agents and the Lenders fees at the times and in the amounts separately agreed among them.

Section 2.6 Security. The Loans and all other amounts payable by Borrower and the Affiliates under this Agreement and the other Credit Documents are secured by the Collateral and are entitled to the benefits

of the Security Documents.

Section 2.7 Use of Proceeds.

(a) Construction/Acquisition Loans. The proceeds of the Construction/Acquisition Loans may be used only to pay (i) Qualified Project Construction Costs and Qualified Project Acquisition Costs actually incurred in strict compliance with the Construction/Acquisition Budgets and the Credit Documents and evidenced by the invoices therefor delivered to the Engineer pursuant to Sections 3.2(a)(ii) and (iii), and (ii) interest, fees and other expenses payable pursuant to Section 2.2(b), Section 2.5 and Section 8.11.

(b) Term Loans. The proceeds of each Term Loan may be used only to (i) repay the outstanding principal of and interest on all Construction/Acquisition Loans made with respect to the Project that is the subject of the Term Loan, (ii) fund the Debt Service Reserve Account to the level then-required by the Disbursement Agreement, (iii) pay fees payable to a Lender or an Agent pursuant to Section 2.5 and (iv) pay Closing Costs relating to such Term Loan, and, to the extent such proceeds are not sufficient to pay in full all of the amounts described in the preceding clauses (i) through (iv), such proceeds will be applied first to the amounts described in clause (i), second to the amounts described in clause (ii), third to the amounts described in clause (iii) and fourth to the amounts described in clause (iv) until all of such proceeds have been disbursed. Any amount described in clauses (i) through (iv) of the preceding sentence not paid with the proceeds of a Term Loan will continue to be obligations of Borrower hereunder that mature on October 30, 1998 and will be payable in accordance with the terms of this Loan Agreement.

(c) No Working Capital. Borrower may not use any portion of any Loan for working capital, to provide working capital to any other Person or for distributions to officers or shareholders of Borrower or any other Person.

Section 2.8 Repayment of Principal.

(a) Generally. Borrower shall make principal payments on the dates and in the amounts listed in Schedule I attached to each Term Loan Note. The Loans are not revolving in nature and any amount repaid or prepaid may not be reborrowed and will reduce the amount of the relevant Commitment.

(b) Optional Prepayments. Borrower has the right on any date on which interest or principal is due under this Agreement to prepay any Term Loan

in whole or in part; provided, that (i) Borrower must give the Term Agent at least thirty (30) days' prior irrevocable notice of any such prepayment specifying the date of prepayment, the aggregate principal amount being prepaid and the specific Term Loan or Loans being prepaid and in what principal amounts, (ii) Borrower must also pay all accrued interest on all amounts being prepaid, (iii) any partial prepayment of a Term Loan must be in a minimum principal amount of two million Dollars ($2,000,000) and integral multiples of five hundred thousand Dollars ($500,000) in excess of such amount and (iv) Borrower must pay to the Term Lenders the prepayment fee described in Section 2.8(d). Borrower has no right to voluntarily prepay a Construction/Acquisition Loan.

(c) Mandatory Repayments.

(i) The entire principal amount of all outstanding Loans will be immediately due and payable upon maturity (whether at stated maturity, by acceleration or otherwise).

(ii) Borrower and the Affiliates will use all Delay Damages with respect to a Project received prior to the Term Loan Conversion Date corresponding to such Project to pay Qualified Project Construction Costs or Qualified Project Acquisition Costs for such Project (or, if no further Qualified Project Construction Costs or

Qualified Project Acquisition Costs are incurred by such Project, for any other Project) prior to the funding of any further Construction/Acquisition Loan. Borrower will apply all Delay Damages remaining after the payment of all Qualified Project Construction Costs and Qualified Project Acquisition Costs with respect to all Projects in the manner provided in Section 2.9(c).

(iii) Immediately upon receipt by Borrower or any Affiliate of any distribution of (A) Net Insurance Proceeds with respect to a Project and either (1) such Net Insurance Proceeds exceed the five percent (5%) threshold contained in Section 5.1(p)(vi) or (2) such Net Insurance Proceeds do not exceed the five percent (5%) threshold but are not permitted to be retained by Borrower for application in accordance with Section 5.1(p)(vi) or Borrower determines not to apply such Net Insurance Proceeds in a manner permitted by Section 5.1(p)(vi), or (B) the proceeds of any sale, transfer or disposition of any Project or any Project asset not specifically permitted by Section 5.2(b), Borrower will prepay the then-outstanding Loans relating to such Project in an amount equal to (x) the entire outstanding principal amount of the Construction/Acquisition Loans attributable to such Project as indicated on Schedule I to the Construction/Acquisition Loan Note or (y) the entire outstanding principal amount of the Term Loan Note relating to such Project, as the case may be,

and such prepayment will be applied in the manner provided in Section 2.9(c).

(iv) In addition, if any Project Document is amended or terminated in a manner that results in a cash payment of ten thousand Dollars ($10,000) or more to Borrower or any Affiliate, then Borrower will prepay the then-outstanding Loans relating to such Project in the amount of such proceeds and such prepayment shall be applied in the manner provided in Section 2.9(c).

(v) In addition, if Borrower or any Affiliate ceases to be a controlling person of any Project, then Borrower will prepay the then-outstanding Loans relating to such Project in an amount equal to (A) the entire outstanding principal amount of the Construction/Acquisition Loans attributable to such Project as indicated on Schedule I to the Construction/Acquisition Loan Note or (B) the entire outstanding principal amount of the Term Loan Note relating to such Project, as the case may be and such prepayment shall be applied in the manner provided in Section 2.9(c).

(d) Prepayment Fee. In connection with (i) any voluntary prepayment, (ii) any mandatory prepayment pursuant to Section 2.8(c)(iii), (iv) or (v), or (iii) any payment of a Loan resulting from any exercise of remedies by any Agent or Lender under any Credit Document following the occurrence of an Event of Default, Borrower shall pay to the applicable Agent a prepayment fee equal to the greater of the Reinvestment Loss Amount and the amount determined pursuant to the following table as liquidated damages and compensation for the costs of the Lenders (and the applicable Agent will distribute such prepayment fee according to the Pro Rata Shares of the applicable Lenders):

Date of Prepayment	Penalty as a % of Prepaid Principal Amount
From the Closing Date or the applicable Term Loan Conversion Date, as the case may be, until the first anniversary thereof	2%
From the first to the second anniversary of the Closing Date or the applicable Term Loan Conversion Date, as the case may be	1%

Notwithstanding the foregoing, if the Reinvestment Loss Amount is negative,

then such negative amount will be subtracted from the prepayment penalty calculated pursuant to the above table.

Section 2.9 Payments.

(a) Method of Payment.

(i) All payments by Borrower or any Affiliate under any Credit Document will be made in immediately available funds in U.S. Dollars to the applicable Agent at its main office in Stamford, Connecticut, or its New York Branch, as the case may be, for its account or for the accounts of the applicable Lenders, as the case may be. Borrower must give the applicable Agent telephone notice of any payment to be made hereunder by noon, New York, New York, time and all such payments must be received no later than 1:00 p.m., New York, New York, time, on the date due and must be made in full without defense, set-off or counterclaim of any kind and without any requirement of presentment, notice or demand. In the absence of timely notice and receipt, such payment shall be deemed to have been made on the next succeeding Business Day. Subject to the requirements of Section 2.3(c), whenever any payment to be made hereunder or under any other Credit Document is stated to be due on a day that is not a Business Day, the due date of such payment will be extended to the next succeeding Business Day and such extension of time will be included in the computation of such payment.

(ii) Notwithstanding the provisions of Section 2.9(a)(i) to the contrary, for so long as the Disbursement Agreement remains in full force and effect and provided sufficient funds are available for application in accordance with the terms and conditions hereof and thereof, Borrower authorizes and consents to make, and the Agents and the Lenders agree to receive, any and all payments required to be made hereunder through operation of the relevant provisions of the Disbursement Agreement.

(b) Currency of Payment. All payments under the Credit Documents must be made in U.S. Dollars and no payment obligation will be deemed to have been novated, satisfied or discharged by the tender of any currency other than U.S. Dollars or recovery under a judgment expressed in a currency other than U.S. Dollars unless such tender or recovery will result in the effective payment in full of such obligation in U.S. Dollars at the place indicated in Section 2.9(a). The amount, if any, by which any tender or recovery fails to result in such payment in full will remain due and payable hereunder as a separate

obligation of Borrower or the applicable Affiliate, unaffected by any action of Borrower or any Affiliate or judgment obtained.

(c) Application of Payments. All payments received by the Agents and the Lenders pursuant to Section 2.8(b) or (c) will be applied in the following order of priority:

(i) to the payment of all accrued interest on the Loan that is to be prepaid;

(ii) to the payment or reimbursement of all costs, expenses, Taxes and other amounts payable pursuant to Sections 2.10, 8.11 and 8.12;

(iii) to the payment of all fees payable pursuant to Section 2.5;

(iv) to the payment of the principal of the Loan designated for prepayment in the inverse order of maturity; and

(v) to the payment or reimbursement of all other amounts due to either Agent or any Lender hereunder or under any other

Credit Document.

All payments applied to interest on or principal of any Loan will be paid to the Lenders in proportion to their respective Pro Rata Shares of such Loan. All payments applied to any other category of obligation set forth above will be paid to the various payees within such category in proportion to the respective amounts due to them.

Section 2.10 Increased Costs and Unavailability.

(a) Taxes.

(i) All payments made by Borrower and the Affiliates under the Credit Documents will be made free and clear of, and without deduction or withholding for, any present or future Tax, and Borrower will pay, either directly (with respect to Taxes of which Borrower has independent knowledge) or through reimbursement pursuant to Section 2.10(a)(ii), all Taxes in respect of payments under the Credit Documents other than Lender Income Taxes (collectively, "Reimbursable Taxes"), and all costs and liabilities incurred by each Agent and each Lender (each, an "Affected Party") in connection therewith.

(ii) Borrower will reimburse each Affected Party, on demand given pursuant to Section 2.10(g)(i), for any Reimbursable Tax paid by such Affected Party on an after-tax basis so that such Affected Party (A) receives the full amount payable to it under the Credit Documents and (B) is made whole after taking into account all income taxes it will owe on the reimbursement payment (assuming that such payment is subject to taxation at the highest marginal rate applicable to such Affected Party). Each Affected Party will have the absolute right to arrange its tax affairs in whatever manner it deems appropriate and no Affected Party will be obligated to claim any particular deduction, credit or other benefit.

(iii) If Borrower is prohibited or prevented (by Law or otherwise) from making any payment to an Affected Party required under Section 2.10(a)(ii), then the amount of the payment due to such Affected Party under the Credit Documents will be increased by the amount necessary to insure that such Affected Party will receive the full amount payable to it under the Credit Documents.

(iv) Within thirty (30) days after the date on which any Reimbursable Tax (of which Borrower has independent knowledge or has become aware of by a notice from an Affected Party delivered in accordance with Section 2.10(g)(i)) is due, Borrower will furnish to the applicable Affected Parties official receipts or notarized copies thereof evidencing payment of such Reimbursable Tax.

(v) Each of the Agents and the Lenders agrees to deliver to Borrower all forms and documents necessary to establish any exemption from withholding for Taxes to which it is entitled. Any Person that becomes the successor holder of a Note will deliver the forms and documents required under this Section 2.10(a)(v).

(b) Capital Adequacy, Reserve Requirements. If a Lender determines that any Law enacted or effective after the Closing Date, any change in Law effective after the Closing Date, any change in the interpretation or administration of any Law effective after the Closing Date, or compliance with any directive, guideline or request from any Government Instrumentality effective after the Closing Date (whether or not having the force of Law) has the effect of (i) requiring an increase in the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender or (ii) imposing or modifying any reserve, special deposit, compulsory loan or similar requirement relating to any loan, extension of credit or other asset of, or any deposit with or other liability of, such Lender, and such Lender determines that such increase, imposition or modification is based, in whole or in part, upon its

obligations hereunder, Borrower will either (x) pay to such Lender an amount certified by such Lender to be the amount necessary to preserve the return on equity originally anticipated to be realized by such Lender as a result of the Loans made hereunder or (y) prepay the Loans made by such Lender in the aggregate amount certified by such Lender to be the amount necessary to prevent such Lender from being subject to such increase, imposition or modification. Any prepayment pursuant to this Section 2.10(b) will not cause Borrower to owe a prepayment fee pursuant to Section 2.8(d) or otherwise, but such prepayment shall be applied in the manner provided in Section 2.9(c).

(c) Increased Costs. Borrower will pay to each Lender, upon demand, such amounts as such Lender from time to time determines to be necessary to compensate such Lender for any cost incurred by such Lender or any reduction in the amount received or receivable by such Lender under the Credit Documents, resulting from any Law enacted or effective after the Closing Date, any change in Law effective after the Closing Date, any change in the interpretation or administration of any Law effective after the Closing Date, or compliance with any directive, guideline or request from any Government Instrumentality effective after the Closing Date (whether or not having the force of Law) that:

(i) subjects such Lender to any Tax (other than Lender Income Taxes or Taxes applicable either (A) solely to such Lender and no other Person or (B) solely to lenders active in the project finance market) or changes the basis of taxation of any amount payable to such Lender under the Credit Documents (other than with respect to Lender Income Taxes); or

(ii) imposes any other cost or condition affecting the cost of making a Loan or maintaining a Commitment; provided, that Borrower's obligation under this Section 2.10(c) shall not affect the obligations of the Affected Parties under Sections 2.10(g)(ii) and (iii).

(d) Funding Losses. Borrower will compensate each Lender, upon demand, for any loss, cost or liability (including interest paid by such Lender on funds borrowed to make, continue or convert a Loan and losses sustained in liquidating deposits and in the re-employment of funds) incurred as a result of:

(i) repayment (including repayment due to acceleration) of a Loan on a date other than the last day of an Interest Period (in the case of a Construction/Acquisition Loan) or the applicable Term Loan Maturity Date (in the case of a Term Loan);

(ii) failure of Borrower to borrow a Loan on the Funding Date therefor notified to the applicable Agent in a Notice of Borrowing; or

(iii) failure of Borrower to repay a Loan when due (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) or on the date specified therefor in a notice delivered pursuant to Section 2.8(b).

(e) Unavailability. In the event that on or before any Interest Rate Determination Date a Construction/Acquisition Lender determines that:

(i) U.S. Dollar deposits are not being generally offered in the London interbank market,

(ii) adequate and fair means do not exist for ascertaining interest rates by reference to LIBOR, or

(iii) LIBOR does not represent the cost to such Construction/Acquisition Lender of funding or maintaining a requested

Construction/Acquisition Loan or effective pricing to such Construction/Acquisition Lender for a requested Construction/Acquisition Loan,

then such Construction/Acquisition Lender will give prompt notice of such fact to Borrower and the Construction/Acquisition Agent and Borrower and such Construction/Acquisition Lender will promptly enter into good-faith discussions to determine an alternate reference interest rate and margin that will as nearly as possible duplicate the economic terms of this Agreement and the monetary benefit to such Lender of the Loans made and to be made by it hereunder. If Borrower and such Construction/Acquisition Lender are, after a reasonable time, unable to agree on an alternate reference interest rate and margin, then, at the election of such Construction/Acquisition Lender, such Construction/Acquisition Lender's obligation to make Construction/Acquisition Loans will be immediately suspended.

(f) Illegality. If a Lender determines that any Law enacted or effective after the Closing Date, any change in Law effective after the Closing Date, any change in the interpretation or administration of any Law effective after the Closing Date, or compliance by such Lender with any directive, guideline or request (whether or not having the force of Law) of any Government Instrumentality effective after the Closing Date makes it unlawful or impossible for such Lender to fund or maintain Loans, then upon notice to Borrower by such Lender the obligation of such Lender to fund Loans will be suspended. In addition, the outstanding principal amount of such Lender's portion of all Loans, together with interest accrued thereon and all other amounts payable with respect thereto, will be repaid immediately upon demand of such Lender if such Lender determines that immediate repayment is required or, if such Lender determines that

immediate repayment is not required, in the case of Construction/Acquisition Loans, at the end of the respective Interest Periods of such Construction/ Acquisition Loans. In the event of repayment of a Construction/Acquisition Loan pursuant to this Section 2.10(f) prior to the end of its Interest Period, Borrower will compensate the Construction/Acquisition Lenders for all losses, costs and liabilities described in Section 2.10(d). Any prepayment pursuant to this Section 2.10(f) will not cause Borrower to owe a prepayment fee pursuant to Section 2.8(d) or otherwise, but such prepayment shall be applied in the manner provided in Section 2.9(c). Notwithstanding the foregoing, prior to demanding prepayment of a Loan pursuant to this Section 2.10(f), each Lender affected by the conditions described in this Section 2.10(f) agrees to work in good faith with Borrower to restructure their respective obligations under this Agreement in such a manner as to preserve such Lender's economic return and to eliminate or minimize the need for a Loan to be prepaid.

(g) Notice and Mitigation; Return of Fees.

(i) Upon the occurrence of an event that entitles an Affected Party to compensation, reimbursement or indemnification pursuant to this Section 2.10, such Affected Party will give Borrower prompt notice of such event and, if applicable, the date compliance with this Section 2.10 is required.

(ii) Except as specifically provided in this Section 2.10, each Affected Party will take reasonable measures to avoid the need for, or reduce the amount of, compensation, reimbursement or indemnification pursuant to this Section 2.10; provided, that no Affected Party will be required to take any measure that, in its judgment, would be disadvantageous to it, contrary to its policies or inconsistent with its legal and regulatory position.

(iii) If any Tax or other charge of a type not generally imposed on lenders making loans of the types contemplated by this Agreement is imposed on payments to any Lender and Borrower is obligated hereunder to compensate such Lender for such Tax or other charge, Borrower may, within ten (10) days after receipt of notice of such Tax or other charge, request that such Lender assign its portion

of the affected Loan or Loans to another Person acceptable to such Lender, and such Lender will use reasonable efforts to negotiate such an assignment.

(iv) The Term Agent hereby agrees with Borrower that, upon any demand for repayment of all of the Loans and payment of such Loans and other amounts in accordance with Section 2.10(f), if such

repayment occurs prior to the first anniversary of the Closing Date, the Term Agent will return to Borrower a portion of the total fees paid by Borrower to the Term Agent on the Closing Date pursuant to Section 2.5, such portion to be calculated by multiplying the aggregate amount of such fees by a fraction, not less than zero, the numerator of which is (x) 12 less (y) the number of whole or partial calendar months that have elapsed since the Closing Date and the denominator of which is 12. Notwithstanding the foregoing, if a repayment described in the preceding sentence occurs solely due to the gross negligence or willful misconduct of the Term Agent at any time during the term of this Agreement, then the Term Agent will return to Borrower a portion of the initial fee (but not the agency fee) paid by Borrower to the Term Agent on the Closing Date, such portion to be calculated by multiplying the amount of such initial fee by a fraction (not less than zero), the numerator of which is (x) 10 less (y) the number of whole or partial calendar years that have elapsed since the Closing Date and the denominator of which is 10.

ARTICLE III
CONDITIONS PRECEDENT

Section 3.1 Conditions Precedent to the Closing Date. The obligation of each Lender to make available its respective Commitment is subject to the satisfaction of each of the following conditions precedent:

(a) The Agents and the Lenders have received each of the following, in each case in form and substance satisfactory to the Agents and the Lenders:

(i) each Credit Document required by the Lenders in their sole discretion to be delivered on the Closing Date, executed and delivered by each of the parties thereto;

(ii) judgment lien, tax lien and UCC searches, and such other searches of the records of Government Instrumentalities as the Lenders may require, performed with respect to Borrower and the Affiliates in all relevant jurisdictions;

(iii) the legal opinion of Borrower's Counsel in the form of Exhibit 3.1(a)(iii);

(iv) the legal opinion of Lenders' Counsel;

(v) such other legal opinions as the Agents or the Lenders may require;

(vi) certified copies of:

(A) the Organizational Documents of Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates;

(B) good standing certificates with respect to Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates dated no earlier than thirty (30) days before the Closing Date;

(C) incumbency certificates for the signatories of Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates and resolutions of Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates approving the Documents and the transactions contemplated thereby;

(D) unaudited financial statements of NEO for the fiscal year ended December 31, 1996 and all subsequent quarterly financial statements available on the Closing Date, the most recent unaudited financial statements of Borrower available on the Closing Date, and pro forma balance sheets of the Affiliates as of the Closing Date; and

(E) all Project Documents in effect on the Closing Date and which are listed in Schedule I as having been executed;

(vii) certificates of officers of Guarantor, NEO, Generation II Locomotives, Borrower and each Affiliate certifying that:

(A) all Documents executed by such Person on or prior to the Closing Date are in full force and effect, such Person and, to the best knowledge of such Person after due inquiry, the Project Parties are in compliance with all covenants and provisions thereof, and no breach or event of default (or any event that would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document;

(B) all representations and warranties of such Person contained in the Documents are true, correct and complete;

(C) all financial statements and information relating to such Person provided to the Lenders, taken as a whole, are true, correct and complete; each balance sheet fairly presents the financial position of the Person to which it relates as at the date indicated and was prepared in accordance with GAAP except as specifically noted therein; no material adverse change in the condition or operation, financial or otherwise, of such Person has occurred since July 31, 1997; and the financial statements (including any notes thereto) provided to the Lenders disclose all liabilities, contingent or otherwise, of such Person; and

(D) no act, event or circumstance has occurred with respect to the Projects or such Person or, to the best knowledge of such Person after due inquiry, the Project Parties which has had or could have a Material Adverse Effect or a material adverse effect on the availability or pricing of financing for the Projects;

(viii) copies of all Notices of Self-Certification filed with FERC with respect to the Projects;

(ix) copies of all Required Approvals obtained on or prior to the Closing Date by or on behalf of Borrower or the Affiliates;

(x) a written report of the Engineer opining favorably, to the best of the Engineer's knowledge and except as otherwise noted in such report, on the relevant technical aspects of the Projects, except as otherwise noted in the report, including

without limitation historical and projected Project availability and useful life, projected operation and maintenance costs (including, that the costs of operation and maintenance of the Projects, as detailed in the Closing Pro Forma are consistent with market practice), maintenance plans and schedules, terms of the Project Documents, Required Approvals, expected landfill gas and electricity production, expected availability, net capacity degradation (if any), the ability of the Projects to comply with all conditions contained in the Required Approvals, that there is no event or anticipated event that could reasonably be expected to cause any Project not to be completed by the date contemplated in the Construction and Draw Schedules and landfill gas collection efficiencies;

(xi) the favorable written report of the Energy Consultant confirming the energy price and capacity payment assumptions contained in the Closing Pro Forma; and

(xii) the favorable written report of the Insurance Consultant confirming compliance by Borrower and the Affiliates, except

as noted therein, with all requirements relating to Required Insurance contained in this Agreement.

(b) No act, event or circumstance has occurred (i) with respect to the Projects, Guarantor, NEO, Generation II Locomotives, Borrower or the Affiliates, (ii) in the international financial markets or (iii) otherwise which has had or could reasonably be expected to have a material adverse effect on the availability or pricing of financing for the Projects.

(c) All Taxes, fees and expenses required to be paid by Borrower and the Affiliates on or before the Closing Date have been paid.

(d) Guarantor, NEO, Borrower and the Affiliates have appointed the Process Agent to serve as process agent until the Term Loan Maturity Date and the Process Agent has accepted such appointment in writing, and a copy of such acceptance has been delivered to the Agent.

(e) The Lenders have prepared and analyzed the Closing Pro Forma incorporating the results of the Lenders' due diligence based on information provided by Borrower and the reports of the Lenders' counsel, the Engineer and the Energy Consultant and the terms and conditions imposed by the Project Documents, showing annual Net Operating Cash available for debt service on the Term Loans sufficient (in the Lenders' sole determination) to produce an annual debt service coverage ratio of at least 1.5 to 1 (on a per Project basis as well as for all Projects taken together) and for Borrower to comply with the financial covenants of this Agreement, including maintenance of the Minimum Coverage Ratio.

(f) The Organizational Documents of Borrower and the Affiliates contain bankruptcy-remote provisions satisfactory to the Lenders.

(g) All Documents executed by Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates on or prior to the Closing Date are in full force and effect, Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates and the Project Parties are in full compliance with all covenants and provisions thereof, and no breach or event of default (or any event that could become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document.

(h) All representations and warranties of Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates contained in the Documents are true, correct and complete.

(i) There is no pending or threatened litigation,

investigation or other proceeding (i) relating to any Project (including without limitation relating to the release of any Hazardous Substance or any contingent liability of Borrower, the Affiliates, the Project Parties or the Projects in connection with the release of any Hazardous Substance) or (ii) that could materially adversely affect the condition (financial or otherwise) of Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates or the Project Parties or their ability to perform under the documents, other than the bankruptcy proceedings relating to the EPC Contractor of the Edgeboro Project and the pre-petition liens relating thereto.

(j) A First-Priority security interest in the Collateral that is the subject of the Security Documents in effect as of the Closing Date, has been created and perfected, and will continue to be perfected, in favor of the Lenders in all relevant jurisdictions, and there are no Liens on the Collateral other than Permitted Liens. The Term Agent has received all items of Collateral in which a security interest is perfected by possession, including stock certificates and stock powers relating thereto.

(k) No Project has suffered a material loss (unless such Loss has been remedied to the satisfaction of the Lenders) or is subject to pending or threatened condemnation or appropriation proceedings.

(l) The operations of Borrower, the Projects and the Affiliates comply and will comply, in all respects deemed material by the Lenders (including without limitation that the Projects will be able to meet the financial and construction progress projections contained in the Closing Pro Forma), with all Applicable Laws and Required Approvals.

(m) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Agent or any Lender from entering into and performing its obligations under this Agreement.

Section 3.2 Conditions Precedent to the Funding of Each Construction/Acquisition Loan. The obligation of the Construction/Acquisition Lenders to fund any Construction/Acquisition Loan is subject to the satisfaction of each of the following conditions precedent:

(a) The Construction/Acquisition Agent and the Construction/Acquisition Lenders have received each of the following, in each case in form and substance satisfactory to the Construction/Acquisition Agent and the Construction/Acquisition Lenders:

(i) a Notice of Borrowing, with all attachments thereto, sent in compliance with Section 2.2(a)(i);

(ii) copies of all invoices, applications for payment, payment receipts and lien waivers and releases received from the EPC Contractor and other Project Parties of the Project that is the subject of the requested Loan and all major subcontractors as reasonably requested by the Construction/Acquisition Agent;

(iii) a certificate of the Engineer certifying that, to the best of its knowledge after due inquiry and review:

(A) that all invoices, applications for payments, receipts, lien waivers and releases submitted by Borrowers in connection with the Notice of Borrowing with respect to such Loan are, genuine and correct and in conformity and compliance with the applicable Construction/Acquisition Budget, Construction and Draw Schedule and EPC Contract and with the requirements of the Credit Documents and are sufficient to document the services and materials for which the Loan is being requested;

(B) that construction of the Projects is on or ahead of the schedules contained in the Construction and

Draw Schedules and that all Qualified Project Construction Expenses are consistent with the Construction and Draw Schedules. If project schedule slippages are anticipated, updated schedules with corrective action, or revised scheduled completion dates are provided, and update budget to reflect such changes;

(C) that sufficient funds remain available under the Construction Draw Schedules to complete the Projects;

(D) that Required Approvals capable of being obtained as of the Funding Date have been obtained and that other Required Approvals that are not possible to obtain as of such date are likely to be obtained as needed in the future in the opinion of the Engineer;

(E) that the Engineer is not aware of any event that has occurred or is anticipated to occur that could cause a Project not to be completed on or before the projected date contained in the Construction and Draw Schedules;

(F) with respect to the first Construction/Acquisition Loan requested for a Project, that each Action Item listed in Schedule III relating to the Project that is the

subject of the requested Construction/Acquisition Loan has been performed or accomplished to the Engineer's satisfaction;

(iv) copies of all Required Approvals obtained by or on behalf of Borrower, the Affiliates, the EPC Contractors or the Operators, and all Project Documents, to the extent not previously provided to the Lenders;

(v) with respect to the first Construction/Acquisition Loan requested for a Project, binders, certificates or other evidence indicating that the Lenders will immediately following the Funding Date of the requested Loan be named as (i) loss payee with respect to the property insurance and business interruption insurance policies relating to the Project that is the subject of the requested Loan and (ii) additional insureds on the general and umbrella liability insurance policies maintained by Borrower and the Affiliates, together with a letter from the Insurance Consultant certifying that the insurance maintained by Borrower and the Affiliates is adequate and consistent with industry practice;

(vi) (A) with respect to the first Construction/Acquisition Loan requested for a Project, a title report (with copies of all documents and instruments affecting title to such Site or Sites) and an ALTA prepaid policy of title insurance for the Site or Sites of the Project that is the subject of the requested Construction/Acquisition Loan issued by the Title Insurer in favor of the Lenders and insuring the First-Priority of the Lien of the Mortgage relating to such Site or Sites in an aggregate amount equal to the maximum aggregate principal amount of the Construction/Acquisition Loans anticipated to be made to such Project (as reflected in the Closing Pro Forma) (the "Title Policy"). The Title Policy shall be marked "premium paid," shall be issued subject only to Permitted Liens and shall contain modifications to the standard exceptions and such affirmative insurance and endorsements as the Construction/Acquisition Agent may require, and (B) with respect to any drawing other than the first Construction/Acquisition Loan requested for a Project, a continuation of title, pending disbursements endorsement or other suitable title endorsement issued by the Title Insurer for each Title Policy or Title Policies relating

to the Project in respect of which such Construction/Acquisition Loan is requested;

(vii) an Environmental Review of the Site or Sites (consisting of a review of data from State and Federal environmental databases as reported by a third-party vendor, and any reports of non-

compliance obtained from State environmental staff) affirming or stating that, to the best knowledge of the Engineer after due inquiry and review:

(A) No material expenditure will need to be made by Borrower, the applicable Affiliates, or the Project for response to any release of a Hazardous Substance,

(B) None of Borrower, the applicable Affiliates, or the Project are subject to any material contingent liabilities in connection with the release of any Hazardous Substance,

(C) contacts with State environmental staff did not identify any non compliant conditions, and

(D) site visit observations did not identify areas of concern.

(viii) with respect to the first Construction/Acquisition Loan requested for a Project, one or more Mortgages, executed by the Affiliate that is the owner of the Project that is the subject of the requested Construction/Acquisition Loan in favor of the Construction/Acquisition Agent and the Term Agent granting a First-Priority Lien on the Site of the Project that is the subject of the requested Construction/Acquisition Loan, together with an opinion of counsel to Borrower reasonably acceptable to the Construction/Acquisition Agent confirming (A) the enforceability of such Mortgages, (B) that such Mortgages are in due form for filing with the appropriate Government Instrumentality, (C) that the Site may be used for the purpose of constructing and operating the Project Improvements in accordance with any applicable subdivision, zoning and other land-use Laws, and (D) otherwise in form and substance reasonably satisfactory to the Construction/Acquisition Lenders;

(ix) with respect to the first Construction/Acquisition Loan requested for a Project, certified copies of the Construction/Acquisition Budget, Construction and Draw Schedule and descriptive memorandum for the Project that is the subject of the requested Construction/Acquisition Loan;

(x) certified copies of all Project Documents not previously delivered to the Construction/Acquisition Agent;

(xi) certificates of officers of Borrower and the Affiliate that owns the Project that is the subject of the requested

Construction/Acquisition Loan, duly executed as of the Funding Date, certifying that:

(A) all Documents executed by such Person on or prior to the Funding Date are in full force and effect, such Person and, to the best knowledge of such Person after due inquiry, the Project Parties, are in compliance with all covenants and provisions thereof, and no breach or event of default (including any Event of Default) (or any event that would become a breach or event of default with the giving of notice or the passage of time or both) has occurred and is

continuing under any such Document; and

(B) all representations and warranties of such Person contained in the Documents are true, correct and complete;

(xii) with respect to the first Construction/Acquisition Loan requested for a Project, a site plan (the "Site Plan") for the Project that is the subject of the requested Construction/Acquisition Loan identifying the Site for such Project and showing (A) the location of all existing improvements and the intended locations of the improvements to be constructed thereon (collectively, the "Project Improvements") and (B) that the Project Improvements for such Project are or will be located within the boundaries of the Site for such Project;

(xiii) with respect to the first Construction/Acquisition Loan requested for a Project, all documents and instruments evidencing that the Affiliate that is the owner of the Project has valid and subsisting real property interests in and to the Site for the Project that is the subject of the requested Construction/Acquisition Loan (collectively, the "Real Property Documents");

(xiv) to the extent not listed above, all Credit Documents required by the Construction/Acquisition Lenders in their sole discretion to be delivered on the Funding Date, executed and delivered by each of the parties thereto; and

(xv) such other assurances, instruments or undertakings as the Construction/Acquisition Agent or any Construction/Acquisition Lender may reasonably request.

(b) Such Loan is in conformity with the Construction and Draw Schedule for such Project.

(c) The Project Documents executed by Borrower and the Affiliates on or prior to the Funding Date of the requested Loan include all agreements required for the acquisition, development, construction, ownership and operation, as appropriate, of the Project that is the subject of the requested Loan, other than those agreements that the Construction/Acquisition Lenders do not require to be in place on such Funding Date and that the Construction/Acquisition Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and such Project Documents conform in all material respects with the Closing Pro Forma and are sufficient to permit the Project to operate in a manner that will neither violate the Required Approvals or the manufacturer's normal operating parameters and such that the Project will be able to achieve the net operating revenue projected in the Closing Pro Forma.

(d) All Documents executed by Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates on or prior to the Funding Date of the requested Loan are in full force and effect, Guarantor, NEO, Generation II Locomotives, Borrower, the Project Parties and the Affiliates are in compliance with all covenants and provisions thereof, and no breach or event of default (or any event that would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document.

(e) All representations and warranties of Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates contained in the Documents are true, correct and complete.

(f) No act, event or circumstance has occurred (i) with respect to the Projects, Guarantor, NEO, Generation II Locomotives, Borrower or the Affiliates, (ii) in the international financial markets or (iii) otherwise, including without limitation any amendment or any proposed amendment to

permitting, licensing or other regulatory requirements or any Project Document, which has had or could have a Material Adverse Effect.

(g) There is no pending or threatened litigation, investigation or other proceeding (i) relating to any Project (including without limitation relating to the release of any Hazardous Substance or any contingent liability of Borrower, the Affiliates, the Project Parties or the Projects in connection with the release of any Hazardous Substance), (ii) that could materially adversely affect the condition (financial or otherwise) of Guarantor, NEO, Borrower and the Affiliates or (iii) that could materially adversely affect the ability of Generation II Locomotives or the Project Parties to perform under the Documents.

(h) All Required Approvals have been obtained except for those that are obtainable only at a later stage and which the Construction/Acquisition Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and all obtained Required Approvals are in full force and effect, not subject to any onerous or unusual condition and satisfactory to the Construction/Acquisition Lenders in their sole discretion.

(i) All Required Insurance has been obtained, all Required Insurance is in full force and effect and is not subject to cancellation and no Person other than Guarantor, NEO, Borrower, the Affiliates and the Lenders has any right or interest in, to or under any Required Insurance other than pursuant to the Project Documents.

(j) A First-Priority security interest in the Collateral has been created and perfected, and will continue to be perfected, in favor of the Lenders in all relevant jurisdictions, and there are no Liens on the Collateral other than Permitted Liens.

(k) Borrower and the Affiliates have made all Equity Contributions required to be made at or before the date of such Loan and all of such Equity Contributions has been expended for Qualified Project Construction Costs or Qualified Project Acquisition Costs, as the case may be.

(l) No Project has suffered a material Loss (unless such Loss has been remedied to the satisfaction of the Construction/Acquisition Lenders) or is subject to pending or threatened condemnation or appropriation proceedings.

(m) The operations of Borrower, the Projects and the Affiliates comply and will comply, in all respects deemed material by the Construction/Acquisition Lenders (including without limitation that the Projects will be able to meet the projections contained in the Closing Pro Forma), with all Applicable Laws and Required Approvals.

(n) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Construction/Acquisition Lender from making the requested Loan.

(o) Each condition precedent set forth in Schedule II relating to each Project that is the subject of a requested Construction/Acquisition Loan has been satisfied to the satisfaction of the Construction/Acquisition Agent and the Construction/Acquisition Lenders in consultation with the Engineer.

(p) The Construction/Acquisition Agent has received evidence satisfactory to it that any primary fuel supplier to each Project that is the subject of a requested Construction/Acquisition Loan, or any parent company thereof, has qualified for debt financing and is able to draw on such debt financing on terms and in amounts that the Construction/Acquisition Agent deems sufficient in its sole discretion.

(q) All Taxes, fees and expenses required to be paid by Borrower and the Affiliates on or before the Funding Date have been paid.

(r) Each of the Real Property Documents pertaining to the Site or Sites of the Project that is the subject of the requested Construction/Acquisition Loan (or memoranda thereof), the Mortgages and the Financing Statements shall have been duly recorded, published, registered and filed (or arrangements for such recording, publishing, registering and filing shall have been made), in such manner and in such places as are necessary or appropriate to publish notice thereof and protect the validity and effectiveness thereof and to establish, create, perfect, preserve and protect the rights of the parties thereto and their respective successors and assigns, and all Taxes, fees and other charges in connection with such recording, publishing, registration and filing of such documents or any memoranda thereof and any financing statements shall have been paid, or caused to be paid, by Borrower.

(s) The Site for the Project that is the subject of the requested Construction/Acquisition Loan constitutes all the real property interests necessary to construct, maintain and operate such Project in accordance with its respective Project Documents.

Section3.3ConditionsPrecedenttoeachTermLoanConversionDate""2". The obligation of the Term Lenders to fund any Term Loan is subject to the satisfaction of each of the following conditions precedent:

(a) The Term Agent and the Term Lenders have received each of the following, in each case in form and substance satisfactory to the Term Agent and the Term Lenders:

(i) a Notice of Borrowing sent in compliance with Section 2.2(c)(i);

(ii) the Term Note relating to such Term Loan, executed and delivered by Borrower;

(iii) a new lender's policy of title insurance, continuation of title or other suitable title endorsement (issued by the Title Insurer and

including, without limitation, an updated survey endorsement) for each Title Policy or Title Policies relating to the Project in respect of which such Term Loan is requested) confirming that the Mortgage(s) have a First-Priority Lien on the Site securing one hundred percent (100%) of the maximum Aggregate Term Loan Commitment without any additional Liens (other than Permitted Liens);

(iv) an "as-built" survey of the Site or Sites of the Project that is the subject of the requested Term Loan showing (A) the location of the Project Improvements, (B) that the Project Improvements for each Project are located within the boundaries of the Site for such Project (without encroachments on any right-of-way, easement or other interest that could adversely affect the continued operation of such Project), (C) that such Site is not located in a flood zone (or, to the extent that any portion of such Site may be in a flood zone, delineating the portions thereof in such flood zone), and (D) all easements, encroachments and other survey matters required by the Term Agent. The "as-built" Survey shall be dated within 30 days of date of the requested Term Loan, be in form and substance satisfactory to the Term Agent, be prepared by licensed surveyors acceptable to the Term Agent, and be certified to the Term Agent and the Title Insurer;

(v) a legal opinion of Borrower's Counsel in form and substance satisfactory to the Term Agent;

(vi) the legal opinion of Lenders' Counsel;

(vii) such other legal opinions as the Term Lenders may request;

(viii) good standing certificates with respect to NRG, NEO, Borrower and the Affiliate that is the owner of the Project that is the subject of the requested Term Loan dated no earlier than thirty (30) days before the Term Loan Conversion Date;

(ix) certificates of officers of NRG, NEO, Borrower and the Affiliates corresponding to the Project that is the subject of the requested Term Loan certifying that:

(A) all Documents executed by such Person on or prior to the applicable Term Loan Conversion Date are in full force and effect, such Person and, to the best knowledge of such Person, after due inquiry, the Project Parties, are in compliance with all covenants and provisions thereof, and no breach or event of default

(including an Event of Default) (or any event which would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document;

(B) all representations and warranties of such Person contained in the Documents are true, correct and complete in all material respects;

(C) there has occurred no material adverse change in the financial position of such Person since the date of the most recent balance sheet of such Person provided to the Term Lenders; and

(D) no act, event or circumstance has occurred with respect to any Project, such Person or, to the best of such Person's knowledge after due inquiry, any Project Party which has had or could have a Material Adverse Effect;

(x) to the best of the Engineer's knowledge, and except as otherwise noted in its report, the report of the Engineer certifying that, as appropriate,

(A) the Project that is the subject of the requested Term Loan has been completed in accordance with the corresponding EPC Contract (other than Punch List Items, the completion of which will not interfere with the commercial operation of the Project or cause it to operate at levels material different than those forming the basis of the projections in the Closing Pro Forma),

(B) all tests required for Final Performance Acceptance under the corresponding EPC Contract have been successfully completed,

(C) with respect to each Project, has commenced Commercial Operation under the corresponding Power Purchase Agreement and/or Gas Sale Agreement,

(D) that Performance Tests for each Project's Gasco and Genco are completed in accordance with the approved test program,

(E) the Project appears to be capable of

achieving the operating revenue as projected in the Closing Pro Forma,

(F) all Permit Approvals required to commission and operate the Project are in full force and effect, and

(G) all necessary Fuel and utility services are available for the Project,

(H) with respect to each Term Loan Conversion requested for a Project, that each Action Item relating to the Project that is the subject of the requested term loan has been performed or accomplished to the Engineer's satisfaction.

(xi) an Operating Plan and Budget for the Project that is the subject of the requested Term Loan for the current calendar year and the subsequent calendar year;

(xii) copies of all Required Approvals obtained by or on behalf of Borrower, the Affiliates, the EPC Contractors or the Operators and certified copies of all Project Documents to the extent not previously provided to the Term Lenders; and

(xiii) such other assurances, instruments or undertakings as the Term Agent or any Term Lender may reasonably request.

(b) The Project Documents (including the Operation and Maintenance Agreements) executed by Borrower and the Affiliates on or prior to the Term Loan Conversion Date include all agreements required for the ownership and operation of the Project that is the subject of the requested Term Loan (including without limitation that the operation and maintenance expenses of the Project conform with the projection of the operation and maintenance expenses contained in the Closing Pro Forma) other than those agreements that the Term Lenders do not require to be in place on the Term Loan Conversion Date and which the Term Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required.

(c) All Documents executed by NRG, NEO, Generation II Locomotives, Borrower and the Affiliates on or prior to the Term Loan Conversion Date are in full force and effect, NRG, NEO, Generation II Locomotives, Borrower, the Affiliates and all Project Parties are in compliance with all covenants and provisions thereof, and no breach or event of default (or any event which would become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document.

(d) All representations and warranties of NRG, NEO, Generation II Locomotives, Borrower and the Affiliates contained in the Documents are true, correct and complete.

(e) No act, event or circumstance has occurred (i) with respect to the Projects, Borrower or the Affiliates, (ii) in the international financial markets or (iii) otherwise, including without limitation any amendment or any proposed amendment to permitting, licensing or other regulatory requirements or any Project Document, which has had or could reasonably be expected to have a Material Adverse Effect.

(f) There is no pending or threatened litigation, investigation or other proceeding (i) relating to any Project or (ii) that could materially adversely affect the condition (financial or otherwise) of NRG, NEO, Borrower or the Affiliates or (iii) that could materially adversely affect the ability of Generation II Locomotives or the Project Parties to

perform under the Documents.

(g) All Required Approvals have been obtained except for those which are obtainable only at a later stage and which the Term Lenders are satisfied, on the basis of evidence provided by Borrower, will be obtained in the ordinary course of business prior to the time required, all Required Approvals obtained are in full force and effect and not subject to any onerous or unusual condition, and the Term Agent shall have received confirmation of the accuracy of this representation from counsel to Borrower or an independent engineer acceptable to the Term Agent.

(h) All Required Insurance has been obtained and all Required Insurance is in full force and effect and not subject to cancellation and no Person other than Guarantor, NEO, Borrower, the Affiliates and the Lenders has any right or interest in, to or under any Required Insurance other than pursuant to the Project Documents.

(i) A First-Priority security interest in the Collateral has been created and perfected, and will continue to be perfected, in favor of the Lenders in all relevant jurisdictions, and there are no Liens on the Collateral other than Permitted Liens.

(j) No Project has suffered a material loss (unless such Loss has been remedied to the satisfaction of the Term Lenders) or is subject to pending or threatened condemnation or appropriation proceedings.

(k) All Construction/Acquisition Loans that correspond to the Project that is the subject of the requested Term Loan, together with all accrued and unpaid interest thereon and all other amounts due and payable under the

Credit Documents, will be paid concurrently with the funding of the requested Term Loan.

(l) The Debt Service Reserve Fund will be fully funded at or prior to the funding of the requested Term Loan.

(m) All Qualified Project Construction Costs or Qualified Project Acquisition Costs of the Project that is the subject of the requested Term Loan have been paid in full, or an amount deemed sufficient by the Engineer to pay all unpaid costs has been deposited in an account under the control of the Term Agent for such purpose.

(n) Borrower and the Affiliates have made all Equity Contributions required to be made on or before the Term Loan Conversion Date.

(o) The Project that is the subject of the requested Term Loan has achieved Final Performance Acceptance under the corresponding EPC Contract and commenced Commercial Operation under the corresponding Power Purchase Agreement and/or the Gas Sales Agreement.

(p) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Term Lender from making the requested Term Loan.

(q) The Organizational Documents of Borrower and the Affiliates contain bankruptcy-remote provisions satisfactory to the Term Lenders.

(r) Each condition precedent set forth in Schedule II relating to the Project that is the subject of the requested Term Loan has been satisfied to the satisfaction of the Term Agents and the Term Lenders.

(s) The Term Agent has received evidence satisfactory to it that any primary fuel supplier to each Project that is the subject of a requested Term Loan, or any parent company thereof, has qualified for debt financing and is able to draw on such debt financing on terms and in amounts

that the Term Agent deems sufficient in its sole discretion.

(t) All Taxes, fees and expenses required to be paid by Borrower or any Affiliate on or before the Term Loan Conversion Date have been paid.

(u) The operations of Borrower, the Projects and the Affiliates comply and will comply, in all respects deemed material by the Term Lenders (including without limitation that the Projects will be able to meet the projections

contained in the Closing Pro Forma), with all Applicable Laws and Required Approvals.

(v) If appropriate, the conditions precedent set forth in Section 3.4 have been satisfied.

Section 3.4 Additional Conditions Precedent for Certain Term Loans. If Borrower requests a Term Loan for a Project that was not previously the subject of a Construction/Acquisition Loan, then the conditions precedent set forth in Sections 3.2(a)(iv), (v), (vi), (vii), (viii), (ix) and (xv) shall also be satisfied to the satisfaction of the Term Agent and the Term Lenders.

Section 3.5 No Waiver. The failure of the Agent or any Lender to require satisfaction of any condition precedent set forth in this Article III, or the funding of any Loan despite the failure of Borrower to satisfy any such condition precedent, will not constitute a waiver of such condition precedent unless the Lenders so state in writing. A waiver by the Lenders of any condition precedent in connection with the funding of any Loan will not affect the applicability of such condition precedent to the funding of subsequent Loans.

Section 3.6 Location of Closings. The various closings of the loan transactions contemplated hereunder shall take place at the office of the Lenders' Counsel in Washington, D.C., or the offices of the Term Agent in Stamford, Connecticut, at the election of the Agents.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section4.1RepresentationsandWarranties""2". Borrower represents and warrants to the Agents and the Lenders on and as of each date on which such representations and warranties are required to be made pursuant to Article III as follows:

(a) Existence; Authority. It is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Wyoming and is duly qualified to do business as a foreign limited liability company and is in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties. It has all necessary rights, franchises and privileges and full power and authority to execute, deliver and perform the Documents to which it is a party, to design, construct, own and operate the Projects and to conduct its business as currently conducted and as proposed to be conducted. It has taken all necessary action to execute, deliver and perform the

Documents to which it is a party and such Documents have been duly executed and delivered by it and constitute the legally valid and binding obligations of it, enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws relating to or limiting creditors' rights generally or by general principles of equity.

(b) Ownership and Affiliates. Each Affiliate is a corporation or limited liability company, as the case may be, duly organized, validly existing and in good standing under the Laws of the State of its organization and is duly qualified to do business as a foreign corporation or limited liability company and is in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties. Each Affiliate has all necessary rights, franchises and privileges and full power and authority to execute, deliver and perform the Documents to which it is a party and to conduct its business as currently conducted and as proposed to be conducted. Each Affiliate has taken all necessary action to execute, deliver and perform the Documents to which it is a party and such Documents have been duly executed and delivered by such Affiliate and constitute the legally valid and binding obligations of such Affiliate, enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws relating to or limiting creditors' rights generally or by general principles of equity.

(c) Capitalization. The respective ownership interests in Borrower and the Affiliates are as set forth in the Organizational Documents provided to the Agents and the Lenders pursuant to Article III and as described in the organizational charts attached as Exhibit 4.1(c). All of such ownership interests are duly and validly issued and are subject to no Liens other than the Liens in favor of the Agents and the Lenders created by the Pledge Agreements. There are no other ownership or equity interests in Borrower or the Affiliates, rights to acquire or subscribe for any such interests or securities or instruments convertible into or exchangeable or exercisable for any such interests.

(d) Business and Contractual Obligations. Borrower and each Project Owner is a single purpose entity formed for the sole purpose of acquiring or designing and constructing, owning and operating, directly or indirectly, landfill gas-fueled energy generation projects and performing its obligations under the Documents. None of Borrower or the Affiliates has engaged in any business or activity or incurred any liability or expense to any Person except for those contemplated by the Documents. Except for the Documents, none of Borrower or the Affiliates is party or subject to any Contractual Obligation with respect to any of the Collateral. None of Borrower or the Affiliates has assumed, guaranteed, endorsed or otherwise become directly or contingently liable for (including,

without limitation, liable by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) the indebtedness or obligations of any other Person except pursuant to a Credit Document. None of Borrower or the Affiliates has made any loan or advance to any Person or owns or holds the capital stock, securities, debt (other than debt subject to the Subordination Agreement or otherwise explicitly subordinated to the Loans), assets or obligations of, or any interest in, any Person (other than its ownership interest in another Affiliate).

(e) Name, Address and Records. The name of Borrower set forth in the first paragraph of this Agreement is the true, correct and complete name of Borrower, and Borrower does not conduct business under any other name or tradestyle. The legal address of Borrower and the address of the principal place of business and chief executive office of Borrower is 1221 Nicollet Mall, Suite 700, Minneapolis, Minnesota, 55403-2445. Borrower keeps all of its records and all documents evidencing or relating to its Contractual Obligations at such address. Borrower has no property or other assets at any other address other than as listed in the Security Agreements.

(f) No Violations, Defaults or Liens.

(i) None of Borrower or the Affiliates (A) is in violation of any Law (including Environmental Laws), (B) is in violation of or default under its Organizational Documents or (C) is in violation of or default under any Document or other Contractual

Obligation. None of Borrower or the Affiliates is party to or affected by any charter, bylaw, partnership agreement or other constituent document or any Contractual Obligation that could have a Material Adverse Effect.

(ii) To the best knowledge of Borrower, except as previously disclosed to the Agents, no Project Party (A) is in violation of any Law (including Environmental Laws), (B) is in violation of or default under its charter, bylaws, partnership agreement or other constituent documents or (C) is in violation of or default under any Project Document or any other Contractual Obligation.

(iii) No Event of Default has occurred and is continuing and no material Loss has occurred that has not been cured to the satisfaction of the Lenders.

(iv) Borrower and the Affiliates are the legal and beneficial owners of, and have good, marketable and valid title to, the Collateral. None of the Collateral is subject to any Lien other than Permitted Liens.

No effective mortgage, deed of trust, financing statement, security agreement or other instrument similar in effect which is not a Security Document is on file or of record in the office of any Government Instrumentality with respect to any Collateral other than with respect to Permitted Liens.

(v) The execution, delivery and performance of the Documents to which any of Borrower and the Affiliates is a party do not and will not (A) violate any Law (including Environmental Laws), (B) violate, or result in a default under, the Organizational Documents of such Person, (C) violate, or result in a default under, any Document or any other Contractual Obligation subject to the obtaining of consents to assignment from certain Project Parties, (D) result in or require the creation or imposition of any Lien (other than Permitted Liens) on the Collateral or other property of Borrower and the Affiliates or (E) require an Approval from any Person that has not been obtained.

(g) Required Approvals. All Required Approvals obtained on or before the date hereof are listed and described in Schedule 4.1(g) and such list and descriptions are true, correct and complete. Borrower and the Affiliates have obtained all Required Approvals required to be obtained at or prior to the time of this representation and warranty in order for the Projects and Borrower, the Affiliates, the Agents and the Lenders and their respective activities to be in compliance with Applicable Law, and none of Borrower or the Affiliates has any reason to believe that any of the Required Approvals not yet obtained cannot or will not be obtained in the normal course of business as and when required and without significant expense. Borrower has provided the Agents and the Lenders with a true, correct and complete copy of each Required Approval required to be obtained at or prior to the time of this representation and warranty. All Required Approvals obtained by Borrower and the Affiliates (i) are validly issued, (ii) are in full force and effect, (iii) are free from any condition or requirement that cannot be met or that could have an adverse effect on the Projects and (iv) are not the subject of a current challenge and are not subject to any onerous or unusual conditions. No proceeding or other action is pending or threatened with respect to any Required Approval and all information provided in connection with each Required Approval was on the date provided and is on the date hereof true, correct and complete. The Agents will be entitled, without undue expense or delay, to the benefit of each Required Approval upon the exercise of their remedies under the Security Documents.

(h) Project Documents.

(i) The Project Documents include all agreements required for the acquisition, design, construction, ownership, operation and maintenance of the Projects as contemplated by the Documents. Except for Project Documents which are obtainable only at a later stage and which will be obtainable in the ordinary course of business prior to the time required, all Project Documents have been duly and validly executed and delivered by the parties thereto, are in full force and effect and have not been amended, modified, supplemented or terminated. The copies of all Project Documents provided to the Agents and the Lenders by Borrower are true, correct and complete. Borrower and the Affiliates have enforceable agreements or other satisfactory arrangements that ensure the availability, on commercially reasonable terms, of all utilities, transportation, facilities, infrastructure, interconnections, pipelines, materials and services necessary for the acquisition, design, construction, ownership, operation and maintenance of the Projects as contemplated by the Documents.

(ii) The Projects, if acquired or constructed and operated in accordance with the Project Documents, will comply with all Applicable Laws, all Required Approvals and prudent utility practices.

(iii) The legal descriptions of the Sites set forth in Exhibit 4.1(h)(iii) are true and correct. The Affiliates have good title to all easements and other property interests necessary for the acquisition, design, construction, ownership, operation and maintenance of the Projects as contemplated by the Documents, including all rights of access, ingress, egress and interconnection.

(iv) Borrower is not aware of any existing fact or circumstance that would prevent the conversion of all Construction/Acquisition Loans to Term Loans in accordance with this Agreement on or before October 30, 1998.

(i) Patents. Borrower and the Affiliates own, or are licensed to use, all patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how and processes used in, to be used in or necessary for the acquisition, design, construction, ownership or operation of the Projects or for the current or proposed conduct of their businesses. The use of such patents, trademarks, trade names, tradestyles, copyrights, technology, know-how and processes by Borrower and the Affiliates does not and will not injure or infringe upon the rights of any Person. Borrower and the Affiliates have obtained all required licenses for and consents to the transactions

contemplated by the Documents from all Persons with rights in or to any of such patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how or processes.

(j) Taxes. Borrower and each Affiliate have filed in a timely manner or after having obtained an extension all Tax returns required by Law and have paid when due all Taxes imposed on them or on their respective properties, other than Taxes being contested in good faith by appropriate proceedings with proper reserves established in accordance with GAAP.

(k) Financial Statements.

(i) All financial statements of Borrower and the Affiliates (as well as all notes and schedules thereto) furnished to the Agents and the Lenders are true, complete and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with GAAP (except as otherwise stated therein) and show all liabilities, direct and contingent, of the Person indicated required

to be shown under GAAP. Each balance sheet fairly presents the financial condition of the Person indicated as at the dates thereof, and each profit and loss and surplus (deficit) statement fairly presents the results of the operations of the Person indicated for the periods indicated. Except with respect to matters previously disclosed to the Agents, there has been no material adverse change in the business, condition or operations (financial or otherwise) of Borrower or any Affiliate since July 31, 1997, and Borrower knows of no reasonable basis for the assertion against it or any Affiliate of any obligation or liability that is not fully reflected in the financial statements furnished to the Agents and the Lenders.

(ii) The Pro Forma Balance Sheets for Borrower and the Affiliates are true, correct and complete in all material respects and fairly present the information contained therein as at the Closing Date and Borrower's or the applicable Affiliate's good faith estimate of the information contained therein as at the date of such Balance Sheets. None of Borrower or the Affiliates has any material liability, contingent or otherwise, including any liability for Taxes, or any unusual forward or long-term commitment which is not disclosed by, or reserved against in, the Pro Forma Balance Sheets or in the notes thereto which under GAAP is of a nature and an amount required to be so disclosed or reserved. There are no unrealized or anticipated losses from any unfavorable commitments of Borrower or the Affiliates that could reasonably be expected to have a

material adverse effect on the business, condition or operations (financial or otherwise) of Borrower or such Affiliate.

(l) Construction/Acquisition Budgets. Each Construction/Acquisition Budget (i) has been prepared with due care, (ii) is complete in all material respects and fairly presents Borrower's good faith expectations as at the date of such document as to the matters covered thereby, (iii) is based on reasonable assumptions as to the factual and legal matters material to the estimates therein and (iv) is consistent with the Documents. The Construction/Acquisition Budgets accurately specify and describe all Qualified Project Construction Costs and Qualified Project Acquisition Costs.

(m) No Proceedings. Except with respect to matters previously disclosed to the Agents, there is no pending or threatened action, suit, litigation, investigation, arbitration or other proceeding involving or affecting Borrower, any Affiliate or any of their respective properties or assets or, to the best knowledge of Borrower after due inquiry, any Project Party or any of their respective properties or assets, before any Government Instrumentality which could reasonably be expected to have a Material Adverse Effect. None of Borrower, the Affiliates or any of their respective properties or assets or, to the best knowledge of Borrower after due inquiry, any Project Party or any of their respective properties or assets, is subject to any order, writ or injunction which prohibits, enjoins or limits any aspect of the transactions contemplated by the Documents or which could reasonably be expected to have a Material Adverse Effect.

(n) No Broker's Fees. Borrower has no obligation (direct, indirect, contingent or otherwise) to pay any fee, commission or compensation to any broker, finder or intermediary with respect to or as a result of any transaction contemplated by the Documents.

(o) Environmental Matters. The Projects, Borrower, the Affiliates and, to the best knowledge of Borrower after due inquiry, the Project Parties (in respect of their obligations under the Documents) are in compliance with all Environmental Laws. None of Borrower, any Affiliate, and, to the best knowledge of Borrower after due inquiry, any Project Party has transported any Hazardous Substance to or from the Projects or used, generated, manufactured, handled, processed, stored, released, transported, removed, disposed of or cleaned up any Hazardous Substance on, from, under or about the Projects in violation of any Environmental Law, and there has occurred no release or threatened release of any Hazardous Substance on, under, onto,

adjacent to or from the Projects in violation of any Environmental Law. There are no past, current, pending or threatened Environmental Claims in any way relating to Borrower, any Affiliate,

the Projects or, to the best knowledge of Borrower after due inquiry, any Project Party.

(p) No Adverse Events. No portion of any Project or Site is subject to a pending or threatened condemnation or appropriation proceeding that could reasonably be expected to have a Material Adverse Effect.

(q) Public Utility Status.

(i) None of Borrower or the Affiliates is, nor by reason of the ownership or operation of any Project or any other transaction contemplated by the Documents will be, subject to financial, organizational or rate regulation as an "electric utility," "electric utility company," "electric corporation," "electrical company," "public utility," "public service corporation," "gas utility," "natural gas company" (transporting gas in interstate commerce), "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity under any Law.

(ii) None of the Agents or the Lenders will, solely by reason of (A) the ownership or operation of the Projects by the Affiliates, (B) the Loans, (C) the Liens of the Security Documents or (D) any other transaction or relationship contemplated by the Documents, be deemed by any Government Instrumentality to be, or to be subject to regulation as, an "electric utility," "electric utility company," "electric corporation," "electrical company," "public utility," "natural gas company" (transporting gas in interstate commerce), "gas utility," "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity, or a subsidiary or affiliate of any of the foregoing, under any Law. So long as the electric energy generating facility of each Project remains a Qualifying Facility, none of the Agents or the Lenders will, solely by reason of its or their ownership or operation of the Projects upon the exercise of their remedies under the Security Documents, be deemed by any Government Instrumentality to be subject to financial, organizational or rate regulation as an "electric utility," "electric corporation," "electrical company," "public utility," "gas utility," "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity, or a subsidiary or affiliate of any of the foregoing, under any Law.

(iii) The electric energy generating facility of each Project, when constructed or acquired, will constitute a Qualifying Facility. No fact contained in any Notice of Qualifying Facility Status relating to any Project or, from and after the date filed with FERC, its application for certification as a Qualifying Facility has changed, and the Plans and Specifications and the Project Documents are consistent, in all material respects, with such Notices of Qualifying Facility Status and, from and after the dates filed with FERC, each Project's application for certification from FERC that it is a Qualifying Facility.

(r) ERISA. None of Borrower or the ERISA Affiliates of Borrower sponsors, maintains, administers, contributes to, participates in or has any obligation to contribute to or any liability under any Plan.

(s) Labor Matters. There are no collective bargaining agreements or Multiemployer Plans covering any employees of Borrower or the

Affiliates and none of Borrower, the Affiliates or, to the best knowledge of Borrower, any Project Party has experienced any strike, walkout, work stoppage or other labor action or disturbance during the past five years.

(t) Investment Company Act. None of Borrower or the Affiliates is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(u) Use of Proceeds.

(i) The proceeds of the Loans have been and will be used only for the purposes described in Section 2.7 and in accordance with the requirements and conditions of this Agreement.

(ii) Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U or X issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will be used, directly or indirectly, to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock.

(iii) No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(v) Bank Accounts. The Affiliates do not and, commencing thirty (30) days after the Closing Date, Borrower will not, maintain any account or

deposit with any bank or other depository institution other than the accounts created under the Disbursement Agreement.

(w) Enforceability; No Immunity.

(i) The descriptions of the Collateral contained in the Security Documents are true, correct and complete and are sufficient to describe the Collateral and to create, attach and perfect the Liens intended to be created by the Security Documents. All necessary and appropriate deliveries, notices, recordings, filings and registrations have been effected to perfect First-Priority Liens on the Collateral in favor of the Term Agent as agent for the Lenders in all relevant jurisdictions, and the Term Agent as agent for the Lenders has and will continue to have until the Lenders have been paid in full and released their Liens duly and validly created, attached, perfected and enforceable First-Priority Liens on the Collateral in all relevant jurisdictions.

(ii) None of Borrower or the Affiliates, nor any of their respective properties, has any immunity from the jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise).

(x) Full Disclosure. No information, exhibit or report furnished to the Agents and the Lenders by Borrower or the Affiliates contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading.

(y) Insurance. Each of Borrower and the Affiliates is in compliance, to the extent applicable to it, with all requirements set forth in the Documents to maintain insurance, including Required Insurance.

Section 4.2 Survival. The representations and warranties of Borrower and the Affiliates contained in the Documents or made by Borrower or any Affiliate in any certificate, notice or report delivered pursuant to any

Document will survive the Closing Date, the making and repayment of the Loans and any transfer or assignment of Notes.

ARTICLE V
COVENANTS

Section 5.1 Affirmative Covenants. Each Borrower covenants and agrees that, for so long as any Lender has any Commitment hereunder and until the indefeasible payment in full of the Notes and all amounts payable by Borrower

and the Affiliates under the Credit Documents, it will perform and observe each of the following covenants, unless (and then only to the extent) compliance with such covenant has been waived pursuant to Section 8.5:

(a) Existence. It will preserve and maintain its limited liability company existence, rights, franchises and privileges and remain in good standing in the jurisdiction of its incorporation, and qualify and remain qualified as a foreign limited liability company in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties.

(b) Affiliates. It will cause each Affiliate to preserve and maintain its corporate or limited liability company existence, rights, franchises and privileges and to remain in good standing in the jurisdiction of its incorporation or formation, and to qualify and remain qualified as a foreign corporation or limited liability company in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties.

(c) Compliance with Laws, Approvals and Obligations. It will, and will cause the Affiliates to, comply with, and will cause the Projects to be acquired, constructed and operated safely and in compliance with, all Applicable Laws, all Required Approvals, the Documents, its and their other Contractual Obligations and prudent utility practices. It will, and will cause the Affiliates to, perform its and their obligations under the Documents and each of its other Contractual Obligations and will diligently enforce all of its and their rights under the Project Documents and under all guarantees, warranties and indemnities in its and their favor or relating to the Projects or any component thereof. It will, and will cause each Affiliate to, satisfy before the same become delinquent all Claims (including all Claims for labor, services, materials and supplies and other amounts due under its and their Contractual Obligations) other than Claims being contested in good faith by appropriate proceedings with proper reserves established which do not result in the imposition of a Lien prohibited by Section 5.2(f). It will, and will cause each Affiliate to, obtain and maintain in full force and effect all Required Approvals required from time to time and at any time for the execution, delivery, performance, admission into evidence or enforcement of the Documents or the acquisition, development, construction, ownership or operation of the Projects as contemplated under the Documents. It will, and will cause each Affiliate to, furnish the Agents and the Lenders with true, correct and complete copies of all Required Approvals upon receipt thereof.

(d) Title. It will cause the Affiliates to maintain good and marketable title to the Projects and it will, and will cause the Affiliates to,

maintain good and marketable title to the other Collateral and warrant and defend the title to the Projects and the other Collateral against all Claims

that do not constitute Permitted Liens.

(e) Collateral. It will, and will cause each Affiliate to, take all actions necessary to insure that the Term Agent has and continues to have in all relevant jurisdictions duly and validly created, attached, perfected and enforceable First-Priority Liens on the Collateral (including after-acquired Collateral). It will, and will cause each Affiliate to, deliver possession of any Collateral to the Term Agent or its designated agent immediately upon acquiring rights therein to the extent the Term Agent is required to perfect its interest in such Collateral by taking possession thereof. It will also maintain the title insurance policies delivered to the Agents pursuant to Article III.

(f) Construction.

(i) It will cause the Projects to be acquired, constructed and completed in accordance with the Plans and Specifications, the Construction/Acquisition Budgets and the Construction and Draw Schedules. Only new, first-quality components will be used in constructing and equipping the Projects except as may be otherwise agreed by the Construction/Acquisition Agent and the Term Agent in consultation with the Engineer. The Projects will be constructed entirely on the Sites and in a manner so as not to injure or encroach upon the property or rights of any other Person. All Punch List Items for a Project will be completed, to the satisfaction of the Engineer, within ninety (90) days after the Term Loan Conversion Date corresponding to such Project.

(ii) It will give the Construction/Acquisition Agent and the Engineer at least ten (10) Business Days' prior written notice of each test to be conducted under each EPC Contract, Power Purchase Agreement or Gas Sales Agreement, and the Construction/Acquisition Agent, the Engineer and their respective agents and representatives will be afforded the opportunity to observe and verify each such test. Completion will not be deemed to have been achieved until the Engineer determines that it has been achieved. It will give the Agents and the Engineer at least ten (10) Business Days' prior written notice of the occurrence of Commercial Operation of any Project.

(iii) It will cause each Construction/Acquisition Loan to be paid in accordance with this Agreement not later than October 30, 1998.

(g) Maintenance and Operation. It will maintain and preserve, and cause the Affiliates, the EPC Contractors and the Operators to maintain and

preserve, the Projects and all of its and their other properties in good working order and condition, ordinary wear and tear excepted. Prior to the Term Loan Conversion Date with respect to any Project, it will develop an overhaul, maintenance and repair plan with respect to such Project for the period from the applicable Term Loan Conversion Date through the Term Loan Maturity Date, which must be approved by the Engineer and the Term Agent. After such approval, it will, and will cause the Affiliates to, fully comply with such overhaul, maintenance and repair plan. It will, and will cause the Affiliates to, comply with all warranties and maintenance recommendations and requirements of manufacturers and vendors of component parts of the Projects and will make all repairs, alterations, additions and replacements necessary for the Projects (i) to operate safely and to meet the requirements of all Applicable Laws, all Required Approvals, the Documents, the other Contractual Obligations of Borrower and the Affiliates and prudent utility practices and (ii) to operate at the operating levels set forth in the Closing Pro Forma. It will, and will cause the Affiliates to, promptly correct any structural or other defect in a Project or any deviation from the Plans and Specifications. It will, and will cause the Affiliates to, maintain appropriate spare parts, inventories and redundancies.

(h) Operating Plans and Budgets. At least sixty (60) days prior to each January 1 occurring after the applicable Term Loan Conversion Date, it will submit to the Term Agent for approval a proposed Operating Plan and Budget for each Project for the three Operating Years commencing on each such January 1, together with a reconciliation of actual expenses versus those projected in the previously delivered Operating Plan and Budget. The Term Agent will have the right to request revisions to each proposed Operating Plan and Budget, and after an Operating Plan and Budget has been finalized and approved by the Term Agent, it will, and will cause the Affiliates to, follow and comply with such Operating Plan and Budget in all particulars. It will have the right to revise any Operating Plan and Budget with the prior written approval of the Term Agent. Once approved by the Term Agent, an Operating Plan and Budget or a revised Operating Plan and Budget will supersede all prior Operating Plans and Budgets and will continue in effect until a subsequent Operating Plan and Budget has been approved by the Term Agent.

(i) Patents. It will, and will cause the Affiliates to, obtain and maintain in full force and effect all patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how and processes to be used in or necessary for the design, construction, ownership and operation of the Projects and for the current and proposed conduct of its and their businesses, and in its and their use thereof it will, and will cause the Affiliates to, obtain all required licenses and consents and not injure or infringe upon the property or rights of any Person.

(j) Taxes. It will, and will cause the Affiliates to, file all Tax returns required by Law in a timely manner (including after having obtained an extension) and will, and will cause the Affiliates to, pay before the same become delinquent all Taxes imposed upon them or upon their respective properties, other than Taxes being contested in good faith by appropriate proceedings with proper reserves established which do not result in the imposition of a Lien prohibited by Section 5.2(f).

(k) Records and Inspection Rights. It will keep and maintain, and will cause the Affiliates, the EPC Contractors and the Operators to keep and maintain, true, correct and complete records and books of account, in which complete entries will be made in accordance with GAAP and Applicable Law, reflecting all financial transactions of the Projects, Borrower, the Affiliates, the EPC Contractors and the Operators. It will also, and will cause the Affiliates to, keep and maintain true, correct and complete inventories of all Collateral and records of all transactions relating thereto. All such records, books of account and inventories will be kept and maintained at its principal place of business or at the Sites. At any reasonable time and from time to time, it agrees to permit, and to cause the Affiliates, the EPC Contractors and the Operators to permit, either Agent, the Engineer and any agent or representative thereof, to examine and make copies of and abstracts from such records, books of account and inventories, to visit the Projects and the other properties of Borrower and the Affiliates and to discuss the affairs, finances and accounts of Borrower, the Affiliates and the Projects directly with its and their auditors and with any of its and their officers or managers; provided, that unless a Default or an Event of Default has occurred and is continuing, all discussions with the auditors of Borrower and the Affiliates will include a representative of Borrower, and the Agents will provide a copy of all written correspondence with the auditors to Borrower. It will, and will cause the Affiliates to, at all times maintain at the Sites or at its principal place of business a complete set of the current and, if available, as-built plans and specifications for the Projects, which will be available for inspection by the Agents, the Engineer and their respective agents and representatives.

(l) Reporting Requirements. It will, and will cause the Affiliates to, furnish to the Agents and the Lenders:

(i) as soon as available and in any event within sixty (60) days after the end of each of the first three quarters of each fiscal year of such Person, complete unaudited financial statements of such Person, including the balance sheet of such Person as of the end of such quarter, and profit and loss statements and statements of cash flows of such Person for such quarter and for the elapsed portion of such fiscal year, in each case prepared in accordance with GAAP (subject to normal year-end

adjustments and the absence of footnote disclosures) and setting forth in comparative form the figures for the corresponding period of the previous fiscal year of such Person, certified in a manner acceptable to the Agents by the chief financial officer of such Person;

(ii) as soon as available and in any event within one hundred and twenty (120) days after the end of each fiscal year of such Person, complete financial statements of such Person (which, in the case of Borrower will be audited), including the balance sheet of such Person as of the end of such fiscal year, and a profit and loss statement and a statement of cash flows of such Person for such fiscal year, in each case prepared in accordance with GAAP and setting forth in comparative form the figures for the previous fiscal year of such Person, certified in a manner acceptable to the Agents by the chief financial officer of such Person or, in the case of Borrower, independent certified public accountants acceptable to the Agents;

(iii) within ten (10) days after the last day of each calendar month during which a Construction/Acquisition Loan is outstanding, a Monthly Construction Report for each Project with respect to which a Construction/Acquisition Loan is outstanding in the form of Exhibit 5.1(l)(iii);

(iv) within sixty (60) days after the end of each fiscal quarter of such Person, a Quarterly Report and Certificate in the form of Exhibit 5.1(l)(iv);

(v) within one hundred and twenty (120) days after the end of each fiscal year of such Person, an Annual Report and Certificate in the form of Exhibit 5.1(l)(v);

(vi) promptly after the sending, filing or receipt thereof, a copy of each material report, notice, certificate, application, demand, request or other communication that such Person sends to, files with or receives from any Government Instrumentality or Project Party or sends or receives pursuant to any Document that relates to any matter that could reasonably be expected to have a Material Adverse Effect;

(vii) promptly after receipt thereof, copies of each Required Approval; and

(viii) such other information respecting the operations or condition (financial or otherwise) of such Person or the Projects or the other Collateral as an Agent may from time to time reasonably request.

(m) Notice Requirements. It will, and will cause the Affiliates to, give the Agents and the Lenders prompt written notice of the occurrence of any of the following:

(i) any Default or Event of Default;

(ii) any default, breach or violation or any potential default, breach or violation under any Contractual Obligation of such Person;

(iii) any actual, proposed or threatened termination, rescission or amendment of, waiver under or Claim with respect to any Project Document;

(iv) any material Loss;

(v) any Material Adverse Effect or any event or circumstance that could reasonably be expected to have a Material Adverse Effect;

(vi) any pending or threatened Claim, action, attachment, proceeding, suit, litigation, investigation or arbitration involving or affecting such Person, any Project Party or any of their respective properties or assets (including without limitation the Projects and the other Collateral) by any Person or before any Government Instrumentality that concerns the status of a Project as a Qualifying Facility or that could reasonably be expected to have a Material Adverse Effect;

(vii) any termination, revocation, suspension or modification of any Required Approval or any action or proceeding that could reasonably be expected to result in any of the foregoing;

(viii) the receipt of any management letter or similar communication from such Person's auditors, or the resignation, discharge or change of such Person's auditors;

(ix) any Environmental Claim or any fact, circumstance or condition (including any release or spill of any Hazardous Substance) that could form the basis of an Environmental Claim with respect to such Person, any Project Party (in connection with its obligations under the Documents) or any Project or any portion thereof or that could reasonably be expected to have a Material Adverse Effect;

(x) any pending or threatened condemnation or appropriation proceeding affecting any Project or any portion thereof that could reasonably be expected to have a Material Adverse Effect;

(xi) any material dispute involving such Person or any Project Party on the one hand and any Government Instrumentality or Project Party on the other hand (provided, that no notice need be given of a dispute between a Project Party and a Government Instrumentality unless such dispute could reasonably be expected to result in a Material Adverse Effect);

(xii) any event or claim of force majeure under any Project Document;

(xiii) any forced outage with respect to any Project that could reasonably be expected to result in a Material Adverse Effect;

(xiv) such Person's or any ERISA Affiliate's adoption of or participation in any Plan, or intention to adopt or participate in any Plan; or

(xv) any Internal Revenue Service ruling (other than a private letter or other non-public ruling not addressed to NRG, NEO, Borrower or any Affiliate) or any change in Law that could adversely affect the amount or availability to Guarantor, NEO or the Affiliates of the Section 29 tax credits or the validity or enforceability of the Non-Operating Interest Acquisition Agreement.

Each notice delivered pursuant to this Section 5.1(m) must include reasonable details concerning the occurrence that is the subject of such notice as well as Borrower's and the Affiliates' proposed course of action, if any. Delivery of a

notice pursuant to this Section 5.1(m) will not affect Borrower's and the Affiliates' obligations under any other provision of the Credit Documents.

(n) Reserves. It will establish the Debt Service Reserve Account and maintain the balance therein required by the Disbursement Agreement.

(o) Qualifying Facility. It will, and will cause the Affiliates to, maintain each Project as a Qualifying Facility.

(p) Insurance.

(i) It will maintain, and will cause the Affiliates, the EPC Contractors and the Operators to maintain, all Required Insurance and, on each anniversary of the Closing Date, will cause the Insurance Consultant

to provide a letter to the Agents certifying that the insurance maintained by Borrower and the Affiliates is adequate and consistent with industry standards. All Required Insurance will be provided by financially sound and reputable insurance companies or associations rated "A-" or better (and a minimum size rating of IX) by Best's Insurance Guide and Key Ratings (or an equivalent rating by another nationally recognized insurance rating agency of similar standing if Best's Insurance Guide and Key Ratings is no longer published) or other insurance companies of recognized responsibility satisfactory to the Agents, including AEGIS. Borrower may fulfill its obligations under this Section 5.1(p) under a corporate ("master") program or through Contractor / Operator programs of insurance, subject to the prior approval of the Agents.

(ii) All Required Insurance will provide for waivers of subrogation in favor of the Agents and the Lenders, will not be cancelable without at least sixty (60) days' prior written notice to the Agents (except for 10 days for non-payment of premium), and all third party liability policies will name the Agents and the Lenders as additional insureds (except in the case of workers compensation insurances). Insurance protecting Project assets and revenues (property, boiler, business interruption, etc.) shall contain a standard Lender's Loss Payable endorsement, acceptable to the Agents, and name the Lenders or their assignee as first loss payee/mortgagee as respects mortgaged property. Property-related policies shall provide that any payment thereunder for loss or damage with respect to the mortgaged property shall be made to the Project Revenue Account. Such property policies shall provide that any payment of less than $100,000 made in respect of any single casualty or other occurrence may be paid to Borrower, unless the Agents have notified the respective insurer that an Event of Default has occurred and is continuing. Insurance supplied by Borrower shall be primary as respects any other insurance carried by or on behalf of the Agents or the Lenders. The interests of the Agents and the Lenders shall not be invalidated by any action or inaction of any Person or by any breach or violation by any Person of any warranties, declarations or conditions in such policies. All liability insurance will provide a severability of interest or cross liability clause.

(iii) All Required Insurance maintained by the EPC Contractors and the Operators will provide for waivers of subrogation in favor of Borrower, the Affiliates, the Agents and the Lenders, will not be cancelable without at least sixty (60) days' prior written notice to the Agents (except 10 days for non-payment of premium), and all third party liability policies will name Borrower, the Affiliates, the Agents and the

Lenders as additional insureds (except in the case of worker's compensation insurance). Insurance protecting Project assets and

revenue (property, boiler, business interruption, etc.) will name the Agents as the first loss payee/mortgagee as respects mortgaged properties. All liability insurance maintained by the EPC Contractors and the Operators will provide a severability of interest or cross liability clause and will be primary and not excess to or contributing with any insurance or self-insurance maintained by Borrower, the Affiliates, the Agents or the Lenders.

(iv) On the Closing Date and on each anniversary thereof, Borrower will furnish to the Agents evidence of insurance, in the form of binders, cover notes or certificates of insurance evidencing all coverages in place and certify (A) that all premiums are paid or current to date and (B) that Borrower is in compliance with all provisions in this Agreement relating to Required Insurance. Borrower will provide the Agents with copies of all insurance policies and certificates and other information that the Agents may reasonably request in writing with respect to the Required Insurance or the providers thereof and, without any requirement of request by an Agent, will provide the Agents with copies of all replacement policies within 15 days of receipt of such policies by Borrower.

(v) Borrower will, and will cause the Affiliates to, collaterally assign to the Term Agent and grant the Term Agent a Lien upon all insurance proceeds from the Projects obtained by such Persons or in which such Persons have any rights or interests (whether or not complying with or described by this Section 5.1(p), and the Term Agent will have the right to make, settle, compromise and liquidate any and all Claims thereunder, without prejudice to its other rights and remedies under the Documents, the Required Insurance or Applicable Law.

(vi) In the event of a Loss (or a series of Losses arising from a related causal factor or occurring within a period of five (5) Business Days) of less than five percent (5%) of the total Qualified Project Construction Expenses or Qualified Project Acquisition Expenses (as projected in the Closing Pro Forma as of the Closing Date), as the case may be, of a Project in the aggregate, Borrower and the Affiliates will have the right to apply the insurance proceeds, if any, from such Loss to the restoration of the affected Project if such proceeds are sufficient, in the opinion of the Engineer, to pay the cost of restoration and cover Debt Service on the Term Loan corresponding to such Project during any period during which the revenues of the Project are reduced due to the restoration.

(vii) In the event that any policy is written on a "claims made" basis and is approved by the Agents and such policy is not renewed or the retroactive date of such policy is changed, Borrower shall obtain for each such policy or policies the broadest basic and supplemental extended reporting period coverage or "tail" reasonably available in the commercial insurance market for each such policy or policies and shall provide the Agents with proof that such basic and supplemental extended reporting period coverage or "tail" has been obtained.

(viii) In the event any insurance (including limits or deductibles thereof) hereby required to be maintained, other than insurance required by law to be maintained and the builder's risk insurance, described in Exhibit 3.1(i), shall not be available and commercially feasible in the commercial insurance market the Agents with the approval of the Insurance Consultant, shall not unreasonably withhold their agreement to waive such requirement to the extent the maintenance thereof is not so available; provided, that (A) Borrower shall first request any such waiver in writing which request shall be accompanied by written reports prepared by an independent insurance advisor of recognized national standing certifying that such insurance is not reasonably available and commercially feasible in the commercial insurance market for plants of similar type and capacity

(and, in any case where the required amount is not so available, certifying as the maximum amount which is so available) and explaining in detail the basis for such conclusions, such insurance advisers and the form and substance of such reports to be reasonably acceptable to the Agents; (B) at any time after the granting of any such waiver the Agent may request (but no more than once every 180 days) and Borrower shall furnish to the Agents within 30 days after such request, supplemental reports reasonably acceptable to the Agents from such insurance advisers updating their prior reports and reaffirming such conclusions; and (C) any such waiver shall be effective only so long as such insurance shall not be available and commercially feasible in the commercial insurance market it being understood that the failure of Borrower to timely furnish any such supplemental report shall be conclusive evidence that such waiver is no longer effective because such condition no longer exists, but that such failure is not the only way to establish such non-existence.

(q) Litigation. In any action, suit, litigation, investigation, arbitration or other proceeding involving Borrower, the Affiliates or any Project, Borrower will, and will cause the Affiliates to, make all filings and responses in a timely manner, pursue all remedies and appeals, defend their rights and properties with diligence and take all lawful action to avoid a Material Adverse Effect.

Borrower and the Affiliates will promptly pay any valid, final judgment rendered against it or any Project.

(r) Minimum Coverage Ratio. Borrower will maintain a Minimum Coverage Ratio of not less than 1.3 to 1 for the twelve (12) month period ending on the last day of the next preceding month and for the projected subsequent two (2) twelve (12) month periods as forecast in the Operating Plans and Budgets. The first such test shall be performed as of the first anniversary of the Closing Date and thereafter as of the end of each fiscal quarter of Borrower.

Section 5.2 Negative Covenants. Each Borrower covenants and agrees that, for so long as any Lender has any Commitment hereunder and until the indefeasible payment in full of the Notes and all amounts payable by Borrower and the Affiliates under the Credit Documents, it will perform and observe each of the following covenants, unless (and then only to the extent) compliance with such covenant has been waived pursuant to Section 8.5:

(a) Business. It will not, and will not permit any Affiliate to, make any material change in the nature of its business or engage in any business or activity not contemplated by the Documents. It will not, and will not permit any Affiliate to, change its name, its legal address, the address of its principal place of business or chief executive office or the location of its books, records and contracts, or store or maintain Collateral at any location other than the Sites and such principal place of business, without the prior written consent of the Agents. It will not, and will not permit any Affiliate to, adopt or change any trade name or fictitious business name. It will not, and will not permit any Affiliate to, form or have any subsidiaries other than other Affiliates and will not, and will not permit any Affiliate to, own or hold the capital stock, securities, debt, assets or obligations of, or any interest in, any Person other than Borrower and the Affiliates. It will not, and will not permit any Affiliate to, enter into any partnership, joint venture, royalty agreement or profit-sharing or similar arrangement.

(b) Mergers and Sales of Assets. It will not, and will not permit any Affiliate to, merge or consolidate with any Person, or liquidate or dissolve. It will not, and will not permit any Affiliate to, sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) any asset except (i) in the ordinary course of business (including such sales from one Affiliate to another Affiliate), (ii) in connection with the replacement of such asset with a replacement that is appropriate and complies with all requirements of the Documents or (iii) in an

instance in which the proceeds of such sale, assignment, lease or other disposition do not exceed fifty thousand Dollars ($50,000) in each instance and five percent (5%) of the total Qualified Project Construction

Expenses or Qualified Project Acquisition Expenses (as projected in the Closing Pro Forma), as the case may be, of the Project from which such asset is being sold, assigned, leased or otherwise disposed of in the aggregate and, in every instance, such sale, assignment, lease or other disposition has no material impact on the operating cash flow of the relevant Project. The sale of gas, electric or thermal energy pursuant to a Power Purchase Agreement, a Gas Sales Agreement or any other Project Document will not violate this Section 5.2(b).

(c) Contractual Obligations.

(i) It will not, and will not permit any Affiliate to, enter into any material Contractual Obligation. If requested by an Agent, it will, and will cause an Affiliate to, collaterally assign any Contractual Obligation to the Term Agent and will deliver to the Term Agent the written consent to assignment of the other party or parties to such Contractual Obligation and a satisfactory opinion of Borrowers' Counsel confirming the validity and enforceability of such assignment and consent. It will not, and will not permit any Affiliate to, pledge or assign any Contractual Obligation to any Person other than the Term Agent.

(ii) It will not, and will not permit any Affiliate to, amend, suspend, terminate or grant a waiver under any Project Document, or take, or fail to take, any action that could result in the termination of, or the impairment of any right of such Person, either Agent or any Lender under, any Project Document or any other contract, arrangement or agreement material to the Projects. Notwithstanding the foregoing, Borrower and the Affiliates may approve change orders under the EPC Contracts without the Agents' or the Lenders' consent; provided, that the work covered by such change orders does not exceed twenty-five thousand Dollars ($25,000) in the case of any single change order or fifty thousand Dollars ($50,000) in the aggregate per Project over any twelve-month period, and provided, further, that none of such change orders materially affects the character of the Projects or the ability of Borrower and the Affiliates to fulfill their obligations under the Documents. Notwithstanding the foregoing, it will not, and will not permit any Affiliate to, change, or approve a change order which would change the design, scope or nature of any Project, the Plans and Specifications of any Project, the Construction and Draw Schedule of any Project or the performance or availability guarantees or tests.

(iii) The Organizational Documents of Borrower and the Affiliates may not be amended or any provision thereof waived.

(iv) None of Borrower or the Affiliates will declare Final Performance Acceptance or Completion without the approval of the Agents (in consultation with the Engineer), which shall not be unreasonably withheld.

(v) It will, and will cause the Affiliates to, promptly deliver to the Agent copies of (A) all material Contractual Obligations, (B) all amendments, suspensions, termination and waivers of any material Contractual Obligation and (C) all change orders approved or entered into after the date of this Agreement.

(d) Guaranties. Other than pursuant to a Credit Document, it will not, and will not permit any Affiliate to, assume, guarantee, endorse or otherwise become directly or contingently liable for (including liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) the indebtedness or obligation

of any other Person, except for guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

(e) Investments. It will not, and will not permit any Affiliate to, make any loan or advance to any Person except for loans that are expressly subordinated to the Loans pursuant to the Project Documents. Except for Permitted Investments made in compliance with the Disbursement Agreement, it will not, and will not permit any Affiliate to, purchase or otherwise acquire the capital stock, securities, debt, assets or obligations of, or any interest in, any Person other than Borrower and the Affiliates.

(f) Liens. It will not, and will not permit any other Person to, create, incur, assume or suffer to exist, any Lien upon or with respect to any of the Collateral or any of the other property of it or the Affiliates, now owned or hereafter acquired, or assign or otherwise convey, or permit any Person to assign or otherwise convey, any right to receive income or revenues from or of any Project, except that the foregoing restrictions will not apply to the following (collectively, "Permitted Liens"):

(i) the Security Document Liens;

(ii) Liens for Taxes, if such Taxes (A) are not at the time delinquent and thereafter can be paid without penalty or (B) are being contested in good faith by appropriate proceedings with reserves established in accordance with GAAP and such Liens have been bonded over and do not involve any risk that a significant interest in or right to any Collateral

may be sold, lost or forfeited or that any Security Document Lien may be impaired;

(iii) carriers', warehousemen's, materialmen's and mechanics' Liens and other similar Liens imposed by Law and arising in the ordinary course of business in connection with the construction or operation of the Projects, if such Liens have been bonded over and either (A) are not filed of record and are not delinquent or (B) are being contested in good faith by appropriate proceedings with proper reserves established, have not proceeded to judgment and do not involve any risk that a significant interest in or right to any Collateral may be sold, lost or forfeited or that any Security Document Lien may be impaired;

(iv) Liens arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation (other than Liens imposed by ERISA);

(v) purchase money security interests in discrete items of equipment not comprising an integral part of a Project when the obligation secured is incurred for the purchase of such equipment and does not exceed one hundred percent (100%) of the lesser of cost or fair market value thereof at the time of acquisition, and the security interest does not extend beyond the equipment involved; provided, that such Liens and the amount of materials, equipment and fixtures supplied or purchased pursuant to this clause (v) will not, taken together, at any time exceed the maximum aggregate amount of two hundred thousand Dollars ($200,000);

(vi) the exceptions to the titles of the Sites set forth in the title reports delivered pursuant to Article III;

(vii) Liens arising from debt permitted pursuant to Section 5.2(g);

(viii) Liens securing the right of the City of San Diego to purchase the Miramar Project in form and substance acceptable

to the Agents;

(ix) Liens of the construction subcontractors on the Edgeboro Project existing by reason of a failure by the EPC Contractor for the Edgeboro Project to pay pre-petition claims relating to its bankruptcy proceedings (provided, that the Liens described in this clause (ix) shall cease to be Permitted Liens upon the first funding of a Construction/Acquisition Loan relating to the Edgeboro Project); and

(x) Liens provided for in the Amended and Restated Operating Agreement of Minnesota Methane LLC dated as of April 15, 1997.

If foreclosure or enforcement of any Lien upon a Project, any part thereof or any other Collateral is at any time initiated, the Agents will have the right, but not the obligation, to take any action they deem appropriate, including payment of the obligation secured by such Lien, and Borrower will immediately upon demand reimburse the Agents for all sums expended by the Agents in taking any such action. Any amount not reimbursed upon demand will bear interest at the Default Rate and will be an obligation secured by the Security Document Liens.

(g) Indebtedness. It will not, and will not permit any Affiliate to, create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness of Borrower and the Affiliates under the Notes and the other Credit Documents;

(ii) Indebtedness of Borrower and the Affiliates subject to the Subordination Agreement or otherwise expressly subordinated pursuant to the Documents to the Loans; and

(iii) Indebtedness of Borrower and the Affiliates not to exceed, in the aggregate, one hundred thousand Dollars ($100,000) at any one time outstanding, secured by Liens permitted by Section 5.2(f)(v).

(h) Lease Obligations. It will not, and will not permit any Affiliate to, create or suffer to exist any obligation for the payment of rental for any property under leases or agreements to lease having a term of one year or more, other than the Project Documents.

(i) Distributions. It will not, and will not permit any Affiliate to, make, declare or pay any distribution, dividend or return of capital, or purchase, redeem or otherwise acquire for value any ownership interest now or hereafter outstanding, or make any distribution of assets or property to any other Person except for distributions made in compliance with the Disbursement Agreement. It will not, and will not permit any Affiliate to, pay any salary, commission, bonus or fee to any Affiliate unless such salary, commission, bonus or fee is expressly contemplated by and permitted under the Budgets then in effect.

(j) Changes in Control. It will not, and will not permit any Affiliate to, effect or permit any sale, transfer or encumbrance of any ownership interest in Borrower or any Affiliate or any change of control of Borrower or any Affiliate.

(k) Transactions with Affiliates and Third Parties. It will not, and will not permit any Affiliate to, directly or indirectly, conduct any business or enter into any transaction with any Affiliate unless the details of such business or transaction have been fully disclosed to the Agents and the Agents have given their prior written consent. It will not, and will not permit any Affiliate to, enter into any transaction with any Person other than in the ordinary course of business and on an arm's-length basis and will

not enter into any sole or exclusive business relationships.

(l) Environmental Compliance.

(i) It will not, and will not authorize any other Person to, use, generate, manufacture, handle, process, store, release, transport, remove, dispose of or clean up any Hazardous Substance on, under or from any Project, or onto any other property, in violation of any Environmental Law or in a manner that could lead to any Environmental Claim or pose a material risk to human health or the environment. It will comply fully, and will cause all other Persons authorized or suffered to be present by Borrower or any Affiliate at a Project to comply fully, with all Environmental Laws.

(ii) It will, and will cause the Affiliates to, promptly take all actions and pay all costs necessary to comply with all Environmental Laws, to remove and dispose of all Hazardous Substances and to clean-up the Projects and any other property affected by any Project or the activities of Borrower, the Affiliates, the Project Parties or their respective agents or for which Borrower and the Affiliates are otherwise responsible. If Borrower or the Affiliates fail to take the actions or pay the costs required under this Section 5.2(l), the Agents may, but have no obligation to, take such actions or pay such costs, and all amounts so expended will be obligations of Borrower to the Lenders under the Credit Documents payable upon demand and secured by the Liens of the Security Documents. Nothing in this Section 5.2(l) will impose any obligation or liability whatsoever on the Agents or the Lenders.

(iii) From time to time and at any time, the Agents may cause an environmental audit of a Project to be conducted to confirm Borrower's and the Affiliates' compliance with this Section 5.2(l). It agrees, and will cause the Affiliates, to cooperate fully with the Agents and their agents in connection with each such audit and, not more than once every two calendar years, to pay the cost thereof.

(m) Public Utility Status.

(i) It will not, and will not permit any Affiliate to, either by act or omission, become, or cause any Agent or any Lender to become, subject to financial, organizational or rate regulation as an "electric utility," "electric utility company," "electric corporation," "electrical company," "public utility," "public service corporation," "gas utility," "natural gas company" (transporting gas in interstate commerce), "public service company," "public utility holding company," "electric utility holding company," "holding company" or "subsidiary company" of a holding company, or other similar entity, under any Law.

(ii) It will not, and will not permit any Affiliate to, take any action the effect of which would be for the electric energy generating facilities of a Project to cease to be a Qualifying Facility.

(n) ERISA. Neither of Borrower nor any ERISA Affiliate will adopt, maintain, sponsor, participate in or incur any liability or obligation under or to any Plan or incur any obligation to provide post-retirement benefits to any Person.

(o) Use of Proceeds. It will, and will cause the Affiliates to, use the proceeds of the Loans only for the purposes described in Section 2.7 and in accordance with the requirements and conditions of the Credit Documents. It will not, and will not permit any Affiliate to, engage in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U or X issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will

be used, directly or indirectly, to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock. No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(p) Bank Accounts. It will not, and will not permit any Affiliate to, maintain any account or deposit with any bank or other depository institution other than the accounts created under the Disbursement Agreement and such other accounts as the Agents may approve in writing and in which the Lenders will have a perfected, valid and enforceable First-Priority Lien. It will not, and will not permit any Affiliate to, deposit funds into any account other than the accounts created under the Disbursement Agreement.

(q) Auditors. It will not, and will not permit any Affiliate to, discharge or change its auditors or change its fiscal year.

(r) Publicity. It will not, and will not permit any Affiliate to, issue, or consent to the issuance of, any press release, announcement or advertisement that refers to the financing contemplated by the Credit Documents without the prior written consent of the Agents.

(s) Abandonment. It will not, and will not permit any Affiliate to, abandon a Project or cease to operate a Project for any period of thirty (30) consecutive days.

ARTICLE VI
EVENTS OF DEFAULT

Sectio 6.1 Events of Default. Each of the following constitutes an "Event of Default" under this Agreement:

(a) Any principal of any Loan is not paid within five (5) days after such principal is due or any Equity Contribution is not paid when due.

(b) Any interest on any Loan or any fee or other amount payable under any Credit Document (other than amounts described in paragraph (a) above) is not paid within five (5) days after such interest, fee or other amount is due.

(c) Any representation or warranty made by Guarantor, NEO, Borrower, any Affiliate or any Project Party (or any of their respective officers or representatives) in any Document or in any certificate, financial statement or other document furnished pursuant to or in connection with any Document proves to have been incorrect or misleading in any material respect at the time it was made, deemed to have been made, or confirmed; provided, that the fact that a representation or warranty of a Project Party was incorrect or misleading shall not be an Event of Default unless such fact could reasonably be expected to have a Material Adverse Effect.

(d) Guarantor, NEO, Generation II Locomotives, Borrower or any Affiliate fails to perform or observe any term, covenant or agreement contained in any Credit Document (other than any term, covenant or agreement that is the basis of another Event of Default) to be performed or observed by it and such failure remains unremedied for five (5) days after the occurrence thereof; provided, that, if such failure can not be remedied within such five (5) day period, and if Borrower or such other Person is diligently seeking to remedy such failure, and if such failure is reasonably likely to be remedied within thirty (30) days after the initial five (5) day period, then Borrower or such other Person shall have an additional thirty (30) days to remedy such failure.

(e) Any Project Party fails to perform or observe any term, covenant or agreement contained in any Document (other than any term,

covenant or agreement that is the basis of another Event of Default) to be performed or observed by it, such failure is not remedied within any applicable grace period and such failure could reasonably be expected to have a Material Adverse Effect.

(f) The Security Documents for any reason cease to create perfected, valid and enforceable First-Priority Liens on the Collateral, or NEO, Generation II Locomotives, Borrower or any Affiliate so states in writing; provided, that if a perfected, valid and enforceable First-Priority Lien on the Collateral can be created within thirty (30) days, and if Borrower is diligently seeking to do so, then Borrower shall have thirty (30) days to create such a Lien.

(g) Any provision of any Document (i) is terminated, repudiated or declared to be invalid by any party thereto or by any Government Instrumentality or (ii) for any reason ceases to be valid and binding and of full force and effect and, in either case, could reasonably be expected to have a Material Adverse Effect.

(h) Borrower or any Affiliate fails to pay any Indebtedness (other than Indebtedness evidenced by the Notes or arising under the Credit Documents) or any interest or premium thereon when due; or any other default under any agreement or instrument relating to any such Indebtedness, or any other event, occurs and continues after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness or to permit the exercise of any remedy against Borrower or any Affiliate or any of their respective properties, whether or not such default or event is waived by the holders or trustees for such Indebtedness; or any such Indebtedness is declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof.

(i) A final judgment or order for the payment of money in excess of two hundred fifty thousand Dollars ($250,000) is rendered against Borrower or any Affiliate and either (i) enforcement proceedings are commenced by any creditor upon such judgment or order or (ii) a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect for any period of ten (10) consecutive days.

(j) A Bankruptcy Event occurs with respect to Guarantor, NEO, Generation II Locomotives, Borrower, any Affiliate or any Project Party and, in the case of a Project Party, such event could reasonably be expected to have a Material Adverse Effect.

(k) (i) Any Law is enacted, (ii) any change in Law or any change in the interpretation or administration of any Law (having the force of Law) occurs, (iii) any Claim is asserted against a Project, Guarantor, NEO, Generation II Locomotives, Borrower, any Affiliate or any Project Party or (iv) any other event or circumstance occurs, that has or could reasonably be expected to have a Material Adverse Effect.

(l) A Major Loss occurs.

(m) Any Governmental Instrumentality or any Person acting or purporting to act under the authority of any Governmental Instrumentality takes any action to condemn, seize or appropriate, or to assume custody or control of, all or any substantial part of a Project or other property of Borrower or any Affiliate, or takes any action to displace or curtail the authority of the management of Borrower or any Affiliate and such action could reasonably be expected to have a Material Adverse Effect.

(n) An "Event of Default" occurs under the Guaranty.

(o) Guarantor fails to perform or observe any term, covenant or agreement in the Non-Operating Interest Acquisition Agreement to be performed by it and such failure remains unremedied for five (5) days after the

occurrence thereof.

(p) An "Event of Default" occurs under any loan agreement to which any primary fuel supplier to any Project, or any parent company thereof, is a party.

Section 6.2 Remedies. The Agents will use reasonable efforts to notify Borrower of an Event of Default, but any failure by the Agents to notify Borrower of an Event of Default will not effect the rights of the Agents and the Lender hereunder or under the other Credit Documents. Upon the occurrence of an Event of Default described in Section 6.1(j), the Commitments of the Lenders will forthwith terminate and the Notes, all interest thereon and all other amounts payable under the Credit Documents will become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower. Upon the occurrence and during the continuance of any other Event of Default, the Agents will at the request, or may with the consent, of the Majority Lenders, by notice to Borrower, (i) declare the Commitment of each Lender to be terminated, whereupon the same will forthwith terminate and (ii) declare the Notes, all interest thereon and all other amounts payable under the Credit Documents to be forthwith due and payable, whereupon the Notes, all such interest and all such amounts will become and be

forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower.

Section 6.3 Right to Complete.

(a) Upon the occurrence and during the continuance of an Event of Default, the Agents and the Lenders, in addition to any other remedy that they may have under the Credit Documents or by Law, will have the right (but not the obligation) in their sole and absolute discretion:

(i) to enter upon a Site, a Project and other property owned or leased by Borrower or any Affiliate and complete the acquisition, construct, equip and complete a Project, at the risk, cost and expense of Borrower;

(ii) at any and all times to discontinue any work commenced by them in respect of a Project or to change any course of action undertaken by them; and

(iii) to take over and use all or any part of the labor, materials, supplies and equipment contracted for by or on behalf of Borrower and the Affiliates, whether or not previously incorporated into a Project; provided, that the Agents will use reasonable efforts to provide Guarantor with draft agreements relating to their actions taken pursuant to this Section 6.3(a) and will provide Guarantor with reasonable opportunity to comment thereon.

The Agents may exercise the rights described in this Section 6.3 from time to time and at any time after the occurrence and during the continuance of an Event of Default, whether or not the Notes have become due and payable and whether or not foreclosure has been initiated under the Security Documents. In no event will the actions of the Agents or the Lenders constitute either Agent or any Lender a mortgagee-in-possession, and Borrower hereby indemnifies the Agents and the Lenders from and against any and all costs and liabilities resulting from any such characterization or from their actions or omissions to act pursuant to this Section 6.3.

(b) In connection with any construction or development of a Project undertaken by the Agents and the Lenders pursuant to the provisions of this Section 6.3, they may:

(i) engage builders, contractors, architects, engineers, security services and others for the purpose of furnishing labor, material, equipment and security in connection with any

construction of a Project;

(ii) pay, settle or compromise, or cause to be paid, settled or compromised, all claims or bills that may become Liens against a Site or a Project, or that have been or may be incurred in any manner in connection with the acquisition, construction, development, completion and equipping of a Project or for the discharge of Liens or defects in the title of a Site or a Project; and

(iii) take such other action or refrain from acting under this Agreement as the Lenders may in their sole and absolute discretion from time to time determine.

(c) Borrower will be liable to the Agents and the Lenders for all sums paid or incurred for the acquisition, construction, development, completion and equipping of a Project and all payments made or liabilities incurred by the Agents and the Lenders under this Agreement of any kind whatsoever will be paid by Borrower to the Agents and the Lenders upon demand with interest to the date of payment to the Agents and the Lenders at the Default Rate.

(d) For the purpose of carrying out the provisions and exercising the rights, powers and privileges granted by this Section 6.3, Borrower irrevocably constitutes and appoints the Agents, with full power of substitution, as its true and lawful attorneys-in-fact, in its name and on its behalf, and at its expense, to execute, acknowledge and deliver any document and instrument and to do and perform any act such those referred to in this Section 6.3, without notice to or the consent of Borrower. This power of attorney is coupled with an interest and is not revocable.

ARTICLE VII
THE AGENTS

Section 7.1 Authorization and Action. Each Construction/Acquisition Lender hereby appoints and authorizes the Construction/Acquisition Agent, and each Term Lender hereby appoints and authorizes the Term Agent, to take such actions as agent on its behalf and to exercise such powers under this Agreement and the other Credit Documents as are delegated to each such Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. The Agents will have no duties, responsibilities, obligations or liabilities other than those expressly set forth in the Credit Documents, and no additional duties, responsibilities, obligations or liabilities will be inferred from the provisions of the Credit Documents or imposed on the Agents. As to matters not expressly provided for by this Agreement or the other Credit Documents (including enforcement or collection of the Notes), the Agents will not be required to exercise any discretion or take any action, but will

be required to act or to refrain from acting (and will be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions will be binding upon all the Lenders and all holders of Notes, provided that the Agents will in no event be required to take any action which exposes them to personal liability, which is contrary to the Credit Documents or Law or with respect to which the Agents do not receive adequate instructions or full indemnification from the Lenders. The provisions of this Article VII are solely for the benefit of the Agents, their agents and their respective affiliates and the Lenders. The Agents have no duties or relationships of trust or agency with or to Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates, the Project Parties or their respective affiliates.

Section 7.2 Delegation of Duties. The Agents may delegate any of their responsibilities or duties under the Credit Documents to one or more agents and will not be liable for the negligence or misconduct of any agent selected by them with reasonable care.

Section 7.3 Agents' Reliance. None of the Agents, their agents or any of their respective affiliates will be liable for any action taken or omitted to be taken by any of them under or in connection with the Documents, except that each will be liable for its own gross negligence or willful misconduct as finally determined by a court of competent jurisdiction. Without limiting the generality of the foregoing, each Agent:

(a) may treat the payee of any Note as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in a form satisfactory to the Agent;

(b) may consult with legal counsel (including Borrower's Counsel), independent public accountants and other experts selected by it and will not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts;

(c) makes no representation or warranty to any Lender and will not be responsible to any Lender for any statement, representation or warranty made in or in connection with the Documents;

(d) will not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Documents or to inspect the Projects or the books and records or any other property of Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates or any Project Party;

(e) will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Document or any other document or instrument furnished pursuant thereto, or for the failure of any Person to perform its obligations under any Document; and

(f) will incur no liability under or in respect of this Agreement or any other Document or otherwise by acting upon any notice, consent, waiver, certificate or other writing or instrument (including facsimiles, telexes, telegrams and cables) believed by it to be genuine and signed or sent by the proper Person or Persons.

Section 7.4 Notice of Default. Neither Agent will be deemed to have knowledge or notice of any Default or Event of Default unless and until it has received written notice from a Lender or Borrower referring to this Agreement, describing the Default or Event of Default and stating that such notice is a "notice of default."

Section 7.5 Agents as Lenders. With respect to their Commitments, the Loans funded by them and the Notes issued to them, Lyon Credit Corporation and Credit Lyonnais New York Branch will have the same rights and powers under the Credit Documents as any other Lender and may exercise the same as though they were not the Agents and, unless otherwise expressly indicated, the term "Lender" or "Lenders" will include Lyon Credit Corporation and Credit Lyonnais New York Branch in their individual capacities. Lyon Credit Corporation, Credit Lyonnais New York Branch and their affiliates may accept deposits from, lend money to, act as trustee under indentures of and generally engage in any kind of business with Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates, and any Person who may do business with or own securities of Guarantor, NEO, Generation II Locomotives, Borrower or the Affiliates, all as if Lyon Credit Corporation and Credit Lyonnais New York Branch were not the Agents and without any duty to account therefor to the Lenders.

Section 7.6 Credit Decisions. Each Lender acknowledges that neither Agent nor any of their affiliates has made any representation or

warranty with respect to Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates, the Projects or any other matter, and agrees that no review or other action by the Agents or any of their affiliates will be deemed to constitute any such representation or warranty. Each Lender acknowledges that it has, independently and without reliance upon either Agent or any other Lender, and based on the financial statements referred to in Section 4.1(k) and such other documents and information as it has deemed appropriate, made its own credit analysis and

decision to enter into this Agreement and the other Credit Documents to which it is party. Each Lender also acknowledges and agrees that it will, independently and without reliance upon either Agent or any other Lender, and based on such documents and information as it deems appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Documents. The Agents will have no obligation to provide to any Lender any information or document concerning or relating to the Projects, Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates or any other Person or matter that may come into the Agents' possession or to obtain any such information or documents; provided, that the Agents will deliver to the Lenders information and documents actually received by the Agents from Guarantor, NEO, Generation II Locomotives, Borrower and the Affiliates pursuant to the Credit Documents for distribution to the Lenders.

Section 7.7 Indemnification. The Lenders agree to indemnify the Agents, their agents and their respective affiliates (to the extent not reimbursed by Borrower), ratably according to the respective principal amounts of the Notes then held by each of the Lenders (or if no Notes are at the time outstanding, ratably according to the respective amounts of the Lenders' Commitments), from and against any and all Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against the Agents, their agents or their respective affiliates by any Person (including any Lender) in any way relating to or arising out of:

(a) the Projects;

(b) any Document;

(c) any action taken or omitted by either Agent or any Lender;

(d) any claim for brokerage fees or commissions in connection with any transaction contemplated by the Documents;

(e) any Claim based on any misstatement or inaccuracy in or omission from any disclosure provided by Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates or their representatives in connection with the syndication of the Loans;

(f) the actual or alleged presence, release or discharge of any Hazardous Substance on, from or under a Project or the existence, use, generation, manufacture, handling, processing, storage, release, transportation, removal, disposal or clean-up thereof of any Hazardous

Substance on or at a Project or by Borrower, any Affiliate or any Project Party; or

(g) any Environmental Claim asserted against or relating to a Project, Borrower, any Affiliate or any Project Party or any actual or alleged violation of any Environmental Law by any of such Persons; provided, that no Lender will be liable to any Person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Person's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction.

Without limiting the generality of the foregoing, each Lender agrees to reimburse the Agents promptly upon demand for such Lender's ratable share of any cost, expense or Tax described in Section 8.11 incurred by or imposed on an Agent for which the Agent does not receive reimbursement from Borrower. Payment by an indemnified party will not be a condition precedent to the obligations of the Lenders under this indemnity. This Section 7.7 will survive the Closing Date, the making and repayment of the Loans and any transfer or assignment of the Notes.

Section 7.8 Successor Agents. Each Agent may resign at any time by giving at least thirty (30) days' prior written notice thereof to the Lenders and Borrower and may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders will have the right to appoint a successor Agent. If within thirty (30) days after the resignation or removal of the retiring Agent no successor Agent accepts appointment by the Majority Lenders, the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which will be a commercial bank organized under the Laws of the United States or of any State thereof and will have a combined capital and surplus of at least two hundred fifty million Dollars ($250 million). Upon the acceptance of its appointment as Agent, the successor Agent will thereupon succeed to and be vested with all the rights, powers, privileges and duties of the retiring Agent and the retiring Agent will be discharged from its duties and obligations under the Credit Documents. After any retiring Agent's resignation or removal, the provisions of this Article VII will inure to its benefit as to any action taken or omitted to be taken by it while it was Agent.

Section 7.9 Agents Together and Separately. The Construction/Acquisition Agent and the Term Agent agree to work together throughout the term of this Agreement, notwithstanding that a Construction/Acquisition Loan or a Term Loan is not outstanding at any time. Except as specifically stated in this Agreement, each of the

Construction/Acquisition Agent and the Term Agent is an "Agent" for all purposes under this Agreement and each will provide the other with copies of all documents received by it and will take all reasonable action to share with the other relevant information learned by it about Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates, the Project Parties, the Projects and all other Collateral. The Construction/Acquisition Agent will have primary responsibility for the administration of the Construction/Acquisition Loans and of Borrower's compliance with the terms thereof, and the Term Agent will have similar responsibility for the administration of the Term Loans. In the case of any disagreement between the Construction/Acquisition Agent and the Term Agent, to the extent that any circumstance requires them to act together and not separately, the Agent with the greater amount of then-outstanding Loans for which it has administrative responsibility will control the actions of the Agents.

Section 7.10 Term Agent as Beneficiary of Security Documents and Pledgee of Collateral. The Term Agent is and will be the beneficiary of the Security Documents and the pledgee of the Collateral. The Term Agent and the Construction/Acquisition Agent agree, for their own benefit and for the benefit of the Lenders, that, when it is a party to a Security Document, the Term Agent is acting as the agent for all of the Lenders and that all Lenders have a pari passu interest in the Collateral held by and pledged to the Term Agent.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1 Counterparts. Each of the Credit Documents may be executed in any number of counterparts and by the different parties thereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Section 8.2 Integration. The Credit Documents contain the complete agreement among Guarantor, NEO, Generation II Locomotives, Borrower, the Affiliates, the Lenders and the Agents with respect to the matters contained therein and supersede all prior commitments, agreements and understandings, whether written or oral, with respect to the matters contained therein.

Section 8.3 Severability. Any provision of any Credit Document that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of such Credit Document to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of such Credit Document or of any other Credit

Document, or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 8.3 with an effective provision which as closely as possible corresponds to the spirit and purpose of such ineffective provision and the affected Credit Document as a whole.

Section 8.4 Further Assurances. At any time and from time to time upon the request of either Agent, Borrower will, and will cause NEO or the Affiliates to, execute and deliver such further documents and instruments and do such other acts as the Agent may reasonably request in order to effect fully the purposes of the Credit Documents, to create, perfect, maintain and preserve First-Priority Liens on the Collateral in favor of the Term Agent and to provide for the payment of the Loans and the other obligations of Borrower and the Affiliates in accordance with the terms of the Credit Documents.

Section 8.5 Amendments and Waivers. No amendment or waiver of any provision of any Credit Document, or consent to any departure by Borrower therefrom, will be effective unless it is in writing and signed by the Majority Lenders; provided, that no amendment, waiver or consent will, unless in writing and signed by all Lenders, do any of the following:

(a) waive any condition set forth in Article III;

(b) increase any Commitment or subject the Lenders to any additional obligation;

(c) reduce the principal of, or interest on, the Notes or any fee payable under the Credit Documents;

(d) postpone any date fixed for the payment of principal of, or interest on, the Notes or any fees payable under the Credit Documents;

(e) release any Collateral;

(f) amend or waive the provisions of Section 5.2(f), 5.2(g), 5.2(j), 8.5 or 8.7(b); or

(g) change the definition of "Majority Lenders."

A waiver or consent granted pursuant to this Section 8.5 will be effective only in the specific instance and for the specific purpose for which it is given.

Section 8.6 No Waiver; Remedies Cumulative. The waiver of any right, breach or default under any Credit Document by either Agent or any Lender

must be made specifically and in writing. No failure on the part of either Agent or any Lender to exercise, and no forbearance or delay in exercising, any right under any Credit Document will operate as a waiver thereof; no single or partial exercise of any right under any Credit Document will preclude any other

or further exercise thereof or the exercise of any other right; and no waiver of any breach of or default under any provision of any Credit Document will constitute or be construed as a waiver of any subsequent breach of or default under that or any other provision of any Credit Document. No notice to or demand upon Borrower will entitle Borrower to any further, subsequent or other notice or demand in similar or any other circumstances. Each of the rights and remedies of the Agents and the Lenders under the Credit Documents is cumulative and not exclusive of any other right or remedy provided or existing by agreement or under Law.

Section 8.7 Successors and Assigns.

(a) Each Credit Document will be binding upon and inure to the benefit of the parties thereto and all future holders of Notes and their respective successors and permitted assigns.

(b) Borrower has no right to assign its rights or interests, or delegate its duties or obligations, under any Credit Document without the prior written consent of all Lenders.

(c) The Lenders may not syndicate or transfer all or any part of their respective Commitments to other financial institutions without the prior written consent of the Agents and at no time will there be more than eight (8) Lenders except with the consent of Borrower. In addition, no Person shall become a Lender hereunder the long-term unsecured debt of which, at the time such Person becomes a Lender, is not rated at least BBB- by Standard & Poor's. The Lenders may not syndicate or transfer their Commitments to any other Person that would, by virtue of such Person's becoming a Lender, cause a Project to cease to be a Qualifying Facility. Each such transfer is subject to a minimum purchase requirement of one million Dollars ($1,000,000), and in connection with each such transfer, the transferring Lender and its transferee will execute and deliver a supplement to this Agreement in the form of Exhibit 8.7(c). Upon delivery of such supplement to the Agents, the transferee will become a "Lender" under the Credit Documents with all of the attendant rights, benefits and obligations; the respective Pro Rata Shares of the transferring Lender and its transferee will be appropriately adjusted; and Borrower will execute and deliver to the transferring Lender and its transferee replacement Notes reflecting their respective Pro Rata Shares. The Note or Notes being replaced will be canceled and returned to Borrower. Each replacement Note will have endorsed thereon the disbursements, payments and

amount outstanding thereunder. After any such transfer, the transferring Lender will have no obligation with respect to the portion of its Commitments transferred.

(d) The holder of any Note or Commitment will have the right to grant participations in such Note or Commitment to any Person on such terms and conditions as are determined by such holder in its sole and absolute discretion; provided, that no such grant of participations will release any Lender from its obligations hereunder or create any additional obligation on Borrower.

(e) Each Lender has the right to assign and pledge all or any portion of the obligations owing to it under the Credit Documents to any Federal Reserve Bank or to the United States Department of the Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by the Federal Reserve System; provided, that no such collateral assignment will release any Lender from its obligations hereunder.

(f) Each Lender represents and warrants to the Agents, each other Lender and Borrower that in making Loans hereunder such Lender will be acquiring the Notes issued to it for the purpose of investment and not with the view to, or for sale in connection with, any distribution in violation of the Securities Act of 1933, as amended.

Section 8.8 No Agency. None of Borrower or either Affiliates

is the agent or representative of either Agent or any Lender or is authorized to act on behalf of or bind either Agent or any Lender in any way.

Section 8.9 No Third Party Beneficiaries. Except as otherwise expressly stated therein, each Credit Document is intended to be solely for the benefit of the parties thereto and their respective successors and permitted assigns and is not intended to and does not confer any right or benefit on any third party.

Section 8.10 Nonrecourse. The Loans are the obligations solely of Borrower and the Lenders will have access only to the Collateral and the assets of Borrower for repayment. The Lenders will have recourse against Guarantor only to the extent of its obligations under the Guaranty and any other Document to which it is a party and against NEO, Generation II Locomotives or any Affiliate only (a) to the extent of its obligations under any Document to which it is a party, (b) in the case of fraud, misrepresentation, misappropriation of funds, gross negligence or willful misconduct and (c) with respect to any Collateral pledged by it.

Section 8.11 Costs, Expenses and Taxes. Borrower agrees to pay to the Agents and the Lenders on demand all costs, expenses and Reimbursable

Taxes incurred or arising in connection with the preparation, documentation, negotiation, execution, delivery, funding, syndication (in accordance with clause (a) of the next sentence), administration or enforcement of the Credit Documents or the transactions contemplated thereby or effected pursuant thereto. Such costs, expenses and Reimbursable Taxes will include (a) all reasonable fees, costs and expenses arising or incurred in connection with the syndication of the Loans prior to the Closing Date, but not thereafter, including pursuant to Section 8.7(c), (b) all reasonable fees of, and expenses incurred by, the Engineer, the Energy Consultant, Lenders' Counsel, the Process Agent, the Title Insurer, the Insurance Consultant and all other advisers and consultants engaged pursuant to the Credit Documents, (c) all Taxes and all filing and recordation fees and expenses payable in order to create, attach, perfect, continue and enforce the Liens of the Security Documents, and the cost of the Title Policies and all endorsements thereto, (d) all fees, costs, expenses, Taxes and insurance premiums incurred in connection the protection, maintenance, preservation, collection, liquidation or sale of, or foreclosure or realization upon, any Collateral, (e) all reasonable attorneys' fees and expenses and other costs incurred in connection with (i) complying with any subpoena or similar legal process relating in any way to any Project, any Document, Borrower, Guarantor, NEO, Generation II Locomotives, any Affiliate or any Project Party, (ii) determining the rights and responsibilities of the Agents or the Lenders under the Credit Documents, (iii) any enforcement, amendment or restructuring of, or waiver or consent under, under any Credit Document, (iv) foreclosure or realization upon any Collateral or (v) any bankruptcy, insolvency, receivership, reorganization, liquidation or similar proceeding or any appellate proceeding involving any Project, Borrower, Guarantor, NEO, Generation II Locomotives, any Affiliate or any Project Party, and (f) all costs and expense incurred by either Agent or any Lender in connection with the payment of any Construction/Acquisition Loan on any day other than the last day of its Interest Period and with the borrowing of a Term Loan on any Funding Date other than the Funding Date projected in the Closing Pro Forma as of the Closing Date. Borrower agrees to make the payments required under this Section 8.11 regardless of whether the transactions contemplated by the Credit Documents are consummated and hereby indemnifies the Agents and the Lenders for all liabilities resulting from any failure or delay in making any payment required under this Section 8.11. Borrower's obligations under this Section 8.11 constitute Obligations secured by the Security Document Liens. The Agents will provide to Borrower, at the expense of Borrower, copies of all invoices, receipts and other documentation relating to any amount payable pursuant to this Section 8.11 and reasonably requested by Borrower.

Section 8.12 Indemnity.

(a) Borrower agrees to indemnify the Lenders, the Agents

and their respective affiliates from and against any and all Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against them or any one or more of them by any Person (including any Lender) in any way relating to or arising out of (a) any Project, (b) any Document, (c) any action taken or omitted by or any one or more of them pursuant to any Credit Document, (d) any claim for brokerage fees or commissions in connection with any transaction contemplated by the Documents, (e) any claim based on any misstatement or inaccuracy in or omission in any disclosure provided by Borrower, Guarantor, NEO, Generation II Locomotives, or any Affiliate in connection with the syndication of the Loans, (f) the actual or alleged presence, release or discharge of any Hazardous Substance on, from or under any Project or the existence, use, generation, manufacture, handling, processing, storage, release, transportation, removal, disposal or clean-up of any Hazardous Substance on or at a Project or by Borrower, any Affiliate or any Project Party or (g) any Environmental Claim asserted against or relating to a Project, Borrower, any Affiliate or any Project Party or any actual or alleged violation of any Environmental Law by any of such Persons; provided, that Borrower will not be liable to any Person for any portion of such Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Person's gross negligence or willful misconduct as finally determined by a court of competent jurisdiction or for any lost profits of any Lender arising from any acceleration of a Loan (other than prepayment penalties specifically provided for in this Agreement). Payment by an indemnified party will not be a condition precedent to the obligations of Borrower under this indemnity. This Section 8.12(a) will survive the Closing Date, the making and repayment of the Loans and any transfer or assignment of Notes.

(b) Each Lender hereby agrees that, if the actions of any Lender cause the conditions precedent contained in Section 3.2(n) not to be able to be satisfied in a manner that permits Borrower to receive the requested Construction/Acquisition Loan, then Borrower will be entitled to receive a partial refund of the fee paid by it pursuant to Section 2.5(c) based on the number of days for which the fee has been paid but on which the Commitments for the Construction/Acquisition Loans are not available.

Section 8.13 Right of Set-off. Upon the occurrence and during the continuance of an Event of Default, each Lender is hereby authorized at any time and from time to time, without notice to Borrower (any such notice being expressly waived by Borrower), to set off and apply any and all deposits (general or special, time or demand) at any time held and other indebtedness at any time owing by such Lender (at any of its offices, branches or agencies, wherever

located) to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not such Lender or either Agent has made any demand under any Note or any other Credit Document, and although such obligations may be continuing or unmatured. Each Lender agrees to notify Borrower promptly after any such set-off and application; provided, that the failure to give such notice will not affect the validity of such set-off and application. The rights of the Lenders under this Section 8.13 are in addition to all other rights and remedies (including other rights of set-off) the Lenders may have.

Section 8.14 Sharing of Payments. Each Lender agrees that if as of any date it obtains any payment (whether by voluntary payment, realization upon security, exercise of the right of set-off or banker's lien, counterclaim or cross action or otherwise) on account of the Note or Notes held by it in excess of its Pro Rata Share of all payments on account of the Notes obtained by the Lenders, it will purchase for cash without recourse or warranty from the other Lenders interests in their Notes in such amounts as will result in a proportional participation by all of the Lenders in such excess payment. If any of such excess payment is subsequently recovered from such purchasing Lender, any purchases of interests in Notes will be rescinded and the purchase prices restored to the extent of such recovery, in each case without interest.

Borrower agrees that any Lender purchasing an interest in a Note pursuant to this Section 8.14 may exercise its rights of payment (including the right of set-off) with respect to such interest as fully as if such Lender were the direct creditor of Borrower in the amount of such interest. This Section 8.14 is for the sole benefit of the Lenders and does not confer any right upon Borrower.

Section 8.15 Governing Law. EACH CREDIT DOCUMENT (OTHER THAN CREDIT DOCUMENTS THAT SPECIFICALLY STATE OTHERWISE) WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, OTHER THAN CONFLICT OF LAWS PRINCIPLES THAT WOULD APPLY THE LAWS OF ANOTHER JURISDICTION, AND EXCEPT TO THE EXTENT THAT THE LAWS OF ANOTHER JURISDICTION ARE MANDATORILY APPLICABLE.

Section 8.16 Waiver of Presentment, Demand, Protest and Notice. Except as specifically stated herein or therein, Borrower irrevocably waives presentment, demand, protest and notice of any kind in connection with any Credit Document or any Collateral.

Section 8.17 Waiver of Immunity. To the extent that Borrower has or hereafter acquires any immunity from jurisdiction of any court or from legal process (whether through service or notice, attachment prior to judgment,

attachment in aid of execution, execution or otherwise) with respect to itself or its properties, Borrower hereby irrevocably waives such immunity in respect of its obligations under the Credit Documents.

Section 8.18 Waiver of Jury Trial. BORROWER, THE AGENTS AND THE LENDERS WAIVE ANY RIGHT THEY MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED ON OR ARISING FROM ANY CREDIT DOCUMENT, ANY TRANSACTION CONTEMPLATED THEREBY OR EFFECTED PURSUANT THERETO, ANY DEALING OR COURSE OF DEALING BETWEEN OR AMONG THEM RELATING IN ANY WAY TO THE SUBJECT MATTER OF THE CREDIT DOCUMENTS OR ANY STATEMENT OR ACTION OF ANY OF THEM OR THEIR AFFILIATES. Each of the parties to this Agreement acknowledges and agrees that this waiver is a material inducement to enter into the business relationship contemplated by the Credit Documents and that each has relied on this waiver in entering into the Credit Documents to which it is a party and will continue to rely on this waiver in its future dealings with the other parties. The scope of this waiver is intended to be all-encompassing and this waiver will apply to all Claims of any nature whatsoever, whether deriving from contract, arising by law, based on tort or otherwise. BORROWER, THE AGENTS AND THE LENDERS HAVE MADE THIS WAIVER KNOWINGLY AND VOLUNTARILY AND THIS WAIVER IS IRREVOCABLE. THIS WAIVER WILL ALSO APPLY TO ALL AMENDMENTS, SUPPLEMENTS, RESTATEMENTS, EXTENSIONS AND MODIFICATIONS OF ANY CREDIT DOCUMENT AS WELL AS TO ANY CREDIT DOCUMENT ENTERED INTO AFTER THE DATE OF THIS AGREEMENT. In the event of litigation, this agreement may be filed as a written consent to a trial by the court.

Section 8.19 Consent to Jurisdiction. Each of Borrower, the Agents and the Lenders hereby irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan over any action or proceeding arising out of or relating to any Claim, and each of them hereby irrevocably agrees that all Claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Each of Borrower, the Agents and the Lenders irrevocably waives any objection that it may now or hereafter have to the laying of venue in such forums and agrees not to plead or claim that any such action or proceeding brought in any such New York state or United States federal court has been brought in an inconvenient forum. Borrower hereby irrevocably appoints the Process Agent as its agent to receive on behalf of it and its property service of copies of the summons and complaint and any other process that may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to Borrower in care of the Process Agent at 1633 Broadway, New

York, New York 10007 and Borrower hereby irrevocably authorizes and directs

the Process Agent to accept such service on its behalf. In addition and as an alternative method of service, Borrower also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Borrower at its address set forth on the signature pages to this Agreement. Borrower agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Nothing in this Section 8.19 will affect the right of the Agents and the Lenders to serve legal process in any other manner permitted by Law or affect the right of the Agents and the Lenders to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction. If for any reason the Process Agent ceases to be available to act as Process Agent, Borrower agrees immediately to appoint a replacement Process Agent satisfactory to the Agents.

Section 8.20 Confidentiality. Borrower, the Agents and the Lenders agree to use reasonable efforts to keep confidential the Documents and each document and all information delivered to them by another party to this Agreement and marked "confidential." Notwithstanding the foregoing, each party will be permitted to disclose confidential documents and information (a) to another party, (b) to its affiliates, advisers and consultants, (c) to prospective participants or prospective purchasers or transferees of interests in Notes and their respective affiliates, advisers and consultants, (d) to any Government Instrumentality having jurisdiction over such party, (e) in response to any subpoena or other legal process or to comply with Law, (f) to the extent reasonably required in connection with any litigation to which such party is a party, (g) to the extent reasonably required in connection with the exercise of its rights or remedies under any Credit Document or (h) to the extent such documents or information already have been publicly disclosed by another Person. Each prospective participant, purchaser and transferee and each adviser and consultant to which confidential documents or information is disclosed will be required to execute a confidentiality agreement containing the provisions of this Section 8.20.

Section 8.21 Notices. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party, Guarantor, NEO, or any Affiliate under the terms of any Credit Document (a) must be in writing, (b) must be personally delivered, transmitted by an internationally recognized courier service or transmitted by facsimile and (c) must be directed to such party at its address or facsimile number set forth on the signature pages to this Agreement or, in the case of a notice to Guarantor, NEO or any Affiliate, to Borrower. All notices will be deemed to have been duly given and received on the date of delivery if delivered personally, three days after delivery to the courier if transmitted by courier, or on the date of transmission with

confirmation if transmitted by facsimile, whichever occurs first; provided, that notices to an Agent pursuant to Article II or VII will not be effective until actually received by the Agent. Any party may change its address or facsimile number for purposes hereof by notice to all other parties.

Section 8.22 Legal Representation of the Parties. This Agreement and other Credit Documents were negotiated by the parties with the benefits of legal representation and any rule of construction or interpretation otherwise requiring this Agreement or any Credit Document to be construed or interpreted against any party shall not apply to any construction or interpretation hereof or thereof.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Construction, Acquisition and Term Loan Agreement to be signed on the date first above written.

MINNESOTA METHANE LLC

By /s/ PETER D. JONES

Name: Peter D. Jones
Title: Manager

Address: c/o NEO Corporation
1221 Nicollet Mall
Suite 700
Minneapolis, Minnesota 55403

Attention: President
Facsimile No.: (612) 373-5465

With a copy to:

M. Curtis Whittaker, Esq.
Rath, Young & Pignatelli, P.A.
One Capitol Plaza
P.O. Box 1500
Concord, New Hampshire 03302
Facsimile No.: (603) 226-2700

CREDIT LYONNAIS NEW YORK BRANCH, as
Construction/Acquisition Agent

By /s/ MICHAEL F.G. PEPE

Name: Michael F.G. Pepe
Title: Vice President

Address: 1301 Avenue of the Americas
New York, New York 10019
Attention: Martin A. Cunningham
Facsimile No.: (212) 261-3421

LYON CREDIT CORPORATION, as
Term Agent

By /s/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Address: 1266 East Main Street
Stamford, Connecticut 06902
Attention: Mr. Jerome P. Peters, Jr.
Facsimile No.: (203) 328-9339

With a copy to:
Chadbourne & Parke LLP
1200 New Hampshire Ave., N.W.
Washington, D.C. 20036
Attention: Cornelius J. Golden, Jr., Esq.

Facsimile No.: (202) 974-5602

CONSTRUCTION/ACQUISITION LENDERS:

CREDIT LYONNAIS NEW YORK BRANCH

By /s/ MICHAEL F.G. PEPE

Name: Michael F.G. Pepe
Title: Vice President

Pro Rata Share of Aggregate
Construction/Acquisition Loan
Commitment: 100.00%

Address: 1301 Avenue of the Americas
New York, New York 10019
Attention: Martin A. Cunningham
Facsimile No.: (212) 261-3421

TERM LENDERS:

LYON CREDIT CORPORATION

By /s/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Pro Rata Share of Aggregate
Term Loan Commitment:
100.00%

Address: 1266 East Main Street
Stamford, Connecticut 06902
Attention: Mr. Jerome P. Peters, Jr.
Facsimile No.: (203) 328-9339

GUARANTY

This GUARANTY, dated September 12, 1997 (this "Guaranty"), is made by NRG ENERGY, INC., a Delaware corporation ("Guarantor"), in favor of CREDIT LYONNAIS NEW YORK BRANCH, as agent for the Construction/Acquisition Lenders (as defined below) (in such capacity, the "Construction/Acquisition Agent"), and each lender that is or becomes a Construction/Acquisition Lender pursuant to the Loan Agreement (as defined below) (collectively, the "Construction/Acquisition Lenders").

RECITALS

WHEREAS, Minnesota Methane, L.L.C., a Wyoming limited liability company ("Borrower"), the Construction/Acquisition Agent, the Construction/Acquisition Lenders and the other parties thereto have entered into a Construction, Acquisition and Term Loan Agreement, dated the date hereof (as the same may be amended, modified or supplemented, the "Loan Agreement"), pursuant to which the Construction/Acquisition Lenders have agreed to make certain loans to Borrower for the purpose, among others, of financing the construction or acquisition of the Projects (as defined in the Loan Agreement);

WHEREAS, Borrower is one-half owned by NEO Corporation, a Delaware corporation ("NEO"), and NEO is wholly-owned by Guarantor;

WHEREAS, Guarantor will benefit, directly and indirectly, from the making of the loans by the Construction/Acquisition Lenders to Borrower; and

WHEREAS, it is a condition precedent to the obligations of the Construction/Acquisition Lenders under the Loan Agreement that certain obligations of Borrower thereunder be guaranteed by Guarantor as set forth herein;

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor, intending to be legally bound, hereby agrees for the benefit of the Construction/Acquisition Agent and the Construction/Acquisition Lenders as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. As used in this Guaranty, the terms defined in the preamble and recitals hereto shall have the respective meanings

specified therein. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Loan Agreement and such meanings are incorporated herein by reference. The following term shall have the following meaning:

"Obligations" means all obligations and liabilities of Borrower to the Construction/Acquisition Agent and the Construction/Acquisition Lenders, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, which may arise under or in connection with any Construction/Acquisition Loan made pursuant to the Loan Agreement or any document made, delivered or given in connection therewith, including without limitation the principal of, premium (if any) and interest on the Construction/Acquisition Loan Note and the indebtedness represented thereby, whether on account of principal, premium (if any), interest, reimbursement obligations, fees (including without limitation the Construction/Acquisition Loan Availability Fee), indemnities, costs and expenses (including without limitation all costs and expenses required to be paid by Borrower pursuant to

Sections 2.2(b), 2.5 and 8.11 of the Loan Agreement) or otherwise (including without limitation such interest or other charges as would have accrued on any portion of the Obligations but for the commencement of any bankruptcy or insolvency proceedings), it being the intention of Guarantor, the Construction/Acquisition Agent and the Construction/Acquisition Lenders that the Obligations that are guaranteed by Guarantor pursuant to this Guaranty be determined without regard to any rule of law or order that may relieve Borrower of any portion of such Obligations. Construction/Acquisition Loans that have converted to Term Loans pursuant to the Loan Agreement are not Obligations.

ARTICLE II
GUARANTY

Section 2.1 Unconditional Guaranty. Guarantor hereby unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety, to the Construction/Acquisition Agent and the Construction/Acquisition Lenders the prompt, punctual and complete payment when due, whether at the stated maturity, on acceleration or otherwise, and the prompt, punctual and complete performance when owing, of the Obligations, irrespective of (a) the validity, legality or enforceability of the Obligations or any other agreement or instrument relating thereto or (b) any other circumstance that might otherwise constitute a defense to this Guaranty; provided, that this Guaranty shall be limited to the maximum amount that may be guaranteed by Guarantor without this Guaranty being rendered or deemed void or voidable, whether for fraudulent conveyance or transfer or otherwise, under applicable law. Each and every default

in the payment or performance of the Obligations shall give rise to a separate cause of action hereunder and separate suits may be brought hereunder as each cause of action arises.

Section 2.2 No Subrogation. Notwithstanding any payment or payments made by Guarantor hereunder or any set-off or application of funds of Guarantor by the Construction/Acquisition Agent or the Construction/Acquisition Lenders, Guarantor hereby waives any and all rights to which it may be entitled, by operation of law or otherwise, upon making any payment hereunder (a) to be subrogated to any of the rights of the Construction/Acquisition Agent or the Construction/Acquisition Lenders against Borrower or any other Person or in any Collateral or other collateral security or guaranty or right of offset held by the Construction/Acquisition Agent or the Construction/Acquisition Lenders for the payment of any Obligations or (b) to seek any reimbursement or contribution from Borrower or any other Person in respect to any payment, set-off or application of funds made by or for the account of Guarantor hereunder.

Section 2.3 No Effect on Guaranty. The obligations of Guarantor under this Guaranty shall not be altered, limited, impaired or otherwise affected by:

(a) any rescission of any demand for payment or performance of any of the Obligations or any failure by the Construction/Acquisition Agent or the Construction/Acquisition Lenders to make any such demand on Borrower, Guarantor or any other Person or to collect any payment from Borrower, Guarantor or any other Person or any release of Borrower or any other Person;

(b) any renewal, extension, modification, amendment, acceleration, compromise, waiver, indulgence, rescission, discharge, surrender or release, in whole or in part, of the Loan Agreement or the Obligations or any other instrument or agreement evidencing, relating to, securing or guaranteeing any of the Obligations, or the liability of any party to any of the foregoing or for any part thereof or any collateral security therefor or guaranty thereof;

(c) the validity, legality or enforceability of any of the Obligations or of the Loan Agreement or any other instrument or agreement evidencing, relating to, securing or guaranteeing any of the

Obligations;

(d) any failure by the Construction/Acquisition Agent or the Construction/Acquisition Lenders to protect, secure, perfect, record, insure or enforce any Security Document or Collateral;

(e) any act or omission of the Construction/Acquisition Agent or the Construction/Acquisition Lenders relating in any way to the Obligations or to Borrower, including without limitation any failure to bring an action against any party liable on the Obligations, or any party liable on any guaranty of the Obligations, or any party that has furnished security for the Obligations, or to resort to any collateral or collateral of any other Person;

(f) any defense, set-off or counterclaim that may at any time be available to or be asserted by or on behalf of Borrower, Guarantor or any other Person against the Construction/Acquisition Agent or the Construction/Acquisition Lenders or any circumstance that constitutes, or might be construed to constitute, an equitable or legal discharge of Borrower, Guarantor or any other Person for any of the Obligations, in bankruptcy or in any other instance;

(g) any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Borrower, Guarantor or any other Person or any defense that Borrower or any other guarantor may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding;

(h) any change, whether direct or indirect, in Guarantor's relationship to Borrower, including without limitation any such change by reason of any merger or any sale, transfer, issuance or other disposition of any stock of, membership interest in or other equity interest in Borrower, Guarantor or any other Person;

(i) the absence of any notice to, or knowledge by, Guarantor of the existence or occurrence of any matter or event set forth in this Section 2.3;

(j) any taking, exchange, release or non-perfection or any manner of application of collateral or proceeds thereof or any manner of sale or other disposition of collateral;

(k) any failure to pay any tax that may be payable with respect to the payment of the Obligations by Guarantor or any failure to obtain any authorization or approval from or other action by, or to notify or file with, any Governmental Instrumentality required in connection with the payment of the Obligations by Guarantor;

(l) the termination of the legal existence of Borrower or Guarantor, or the termination of any legal obligation of Borrower to discharge the Obligations undertaken or purported to be undertaken by it or on its behalf (other than to the extent of payment or performance of the Obligations by or on behalf of Borrower); or

(m) any impossibility or impracticality of performance, illegality, force majeure, any action or nonaction of government, or any other circumstance that might otherwise constitute a legal or equitable defense available to or resulting in the discharge of a surety or guarantor or any other circumstance, event or happening whatsoever, whether foreseen or unforeseen and whether similar or dissimilar to anything referred to above in this Section 2.3.

Section 2.4 Continuing Guaranty. Guarantor further agrees that this Guaranty constitutes a present, absolute and continuing guaranty of prompt, punctual and complete payment and performance when due of the Obligations, and not of collection only, and waives any right to require that any resort be had by the Construction/Acquisition Agent or the Construction/Acquisition Lenders, after demand for such payment being made upon Borrower by the Construction/Acquisition Agent or the Construction/Acquisition Lenders, to the Construction/Acquisition Agent's and the Construction/Acquisition Lenders' rights against any other Person, or any other right or remedy available to the Construction/Acquisition Agent or the Construction/Acquisition Lenders by contract, applicable law or otherwise. The obligations of Guarantor under this Guaranty are unconditional, direct and completely independent of the obligations of any other Person and shall not be conditioned or contingent upon the pursuit by the Construction/Acquisition Agent or the Construction/Acquisition Lenders at any time of any right or remedy against Borrower or against any other Person that may be or become liable in respect of all or any part of the Obligations or against any collateral security or guaranty therefor. A separate cause of action or separate causes of action may be brought and prosecuted against Guarantor without the necessity of joining Borrower or any other party or previously proceeding with or exhausting any other remedy against any other Person who might have become liable for the Obligations or any part thereof or of realizing upon any security held by or for the benefit of the Construction/Acquisition Agent and the Construction/Acquisition Lenders.

Section 2.5 Obligations Unconditional. The obligations of Guarantor under this Guaranty shall be absolute and unconditional irrespective of (i) any lack of validity of the Obligations or any other agreement or instrument relating thereto or (ii) any other circumstance that might otherwise constitute a defense to this Guaranty and shall remain in full force and effect until the

Obligations have been indefeasibly satisfied by payment and performance in full, or release by the Construction/Acquisition Agent and the Construction/Acquisition Lenders and, to the extent permitted by law, such Obligations shall not be affected, modified, released or impaired by any state of facts or the happening from time to time of any event whatsoever, whether or not with notice to, or the consent of, Guarantor.

Section 2.6 Term and Reinstatement of Guaranty. This Guaranty will terminate on the date that is the later of (i) October 30, 1998 and (ii) the date on which all Obligations (including without limitation all default interest thereon) have been indefeasibly paid in full. Notwithstanding the foregoing, this Guaranty shall continue in full force and effect, or be reinstated, as the case may be, if at any time any payment or performance hereunder, or any part thereof, of the Obligations is subsequently invalidated, declared to be fraudulent or preferential, avoided, rescinded, set aside or must otherwise be restored or returned by the Construction/Acquisition Agent or the Construction/Acquisition Lenders or any other Person to Borrower or its representatives or to a trustee, receiver, assignee for the benefit of creditors or any other party under any bankruptcy act or code, state or federal law or common law or equitable doctrine, for any reason including as a result of any insolvency, bankruptcy or reorganization proceeding with respect to Borrower or Guarantor, all as though such payment had not been made.

Section 2.7 Financial Condition of Borrower has no Effect on Guaranty. Borrower may borrow the Loans from the Construction/Acquisition Lenders without notice to or authorization from Guarantor regardless of the financial or other condition of Borrower at the time of such borrowing. None of the Construction/Acquisition Agent or the Construction/Acquisition Lenders shall have any obligation to disclose or discuss with Guarantor its assessment of the financial or other condition of Borrower. Guarantor confirms that no representation has been made to the Guarantor concerning the financial condition of Borrower by the Construction/Acquisition Agent or the Construction/Acquisition Lenders.

Section 2.8 No Waiver or Set-Off. No act of commission or

omission of any kind or at any time upon the part of Borrower, any of its successors and assigns or the Construction/Acquisition Agent or the Construction/Acquisition Lenders in respect of any matter whatsoever shall in any way impair the rights of the Construction/Acquisition Agent and the Construction/Acquisition Lenders to enforce any right, power or benefit under this Guaranty, and no set-off, counterclaim, reduction or diminution of any obligation, or any defense of a surety or guarantor that Guarantor have or may have against Borrower, the Construction/Acquisition Agent, the Construction/Acquisition

Lenders or any assignee or successor thereof shall be available hereunder to Guarantor.

Section 2.9 Demands for Payment; Payment. Demands by the Construction/Acquisition Agent for payment of amounts due pursuant to Sections 2.1 and 7.1 may be made on any number of occasions and without any demand for payment given to Borrower. Each demand shall be in writing, shall state the amount owing and shall be effective as of the date given in accordance with Section 7.6. Within five Business Days of giving such a demand in accordance with Section 7.6, dated and signed by an authorized officer of the Construction/Acquisition Agent setting forth the amount of the Obligations at the time owing, Guarantor shall make such payment to or as directed to the Construction/Acquisition Agent and such payment shall not be withheld for any reason.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties. Guarantor represents and warrants that as of the date hereof:

(a) It is a corporation duly organized, validly existing and in good standing under the laws of State of Delaware and has the corporate power, authority and legal right to execute, deliver and carry out the terms and provisions of this Guaranty.

(b) The execution, delivery and performance by Guarantor of this Guaranty have been duly authorized by all necessary corporate action.

(c) The execution, delivery and performance by Guarantor of this Guaranty do not and will not (i) require any consent or approval of any shareholder of Guarantor or Government Instrumentality that has not been obtained and which remains valid, (ii) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Guarantor, or (iii) result in a breach of or constitute a default under any material agreement binding upon Guarantor.

(d) This Guaranty constitutes a valid and legally binding agreement of Guarantor, enforceable in accordance with its terms except as the enforceability of this Guaranty may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar

laws affecting creditors' rights generally and by general principles of equity.

(e) The audited consolidated balance sheet of Guarantor and its subsidiaries as of December 31, 1996 and the related audited consolidated statements of income, cash flows and changes in stockholders' equity accounts for the fiscal year then ended and the unaudited consolidated balance sheet of Guarantor and its subsidiaries as of June 30, 1997 and the related unaudited consolidated statements

of income, cash flows and changes in stockholders' equity accounts for the six months then ended, certified by the chief financial or accounting officer of Guarantor, copies of which have been delivered to the Construction/Acquisition Agent, fairly present, in conformity with GAAP except as otherwise expressly noted therein and except with respect to footnotes in all unaudited financial statements, the consolidated financial position of Guarantor and its subsidiaries as of such dates and their consolidated results of operations and changes in financial position for such fiscal periods, subject (in the case of the unaudited balance sheet and statements) to changes resulting from audit and normal year-end adjustments.

(f) Since December 31, 1996, there has been no material adverse change in the business, consolidated financial position or consolidated results of operations of Guarantor and its subsidiaries, considered as a whole.

(g) There is no action, suit or proceeding pending against Guarantor or any of its subsidiaries, or to the knowledge of Guarantor threatened against Guarantor or any of its subsidiaries, before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision that could materially adversely affect the business, consolidated financial position or consolidated results of operations of Guarantor and its subsidiaries taken as a whole or that in any manner draws into question the validity of this Guaranty or any other Document to which Guarantor is or will be a party.

(h) Guarantor and its subsidiaries have filed or caused to be filed all United States federal income tax returns and all other material domestic tax returns which to the knowledge of Guarantor are required to be filed by them and have paid or provided for the payment of, before the same become delinquent, all taxes due pursuant to such returns or pursuant to any assessment received by Guarantor or any subsidiary, other than those taxes contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of Guarantor and its subsidiaries

in respect of taxes are, in the reasonable opinion of Guarantor, adequate to the extent required by GAAP.

ARTICLE IV
AFFIRMATIVE COVENANTS

Section 4.1 Affirmative Covenants. Guarantor covenants and agrees that it will, unless the Construction/Acquisition Lenders otherwise consent in writing:

(a) Reporting Requirements. Furnish to the Construction/Acquisition Agent and each Construction/Acquisition Lender:

(i) (A) within 60 days after the end of each of the first three fiscal quarters of each fiscal year of Guarantor, a copy of Guarantor's quarterly unaudited consolidated financial statements as of the end of and for such quarter, and (B) within 120 days after the end of each fiscal year of Guarantor, a copy of Guarantor's annual audited consolidated financial statements as of the end of and for such year;

(ii) simultaneously with the delivery of each of the annual or quarterly reports referred to in paragraph (i) above, a certificate of the chief financial officer or chief accounting officer of Guarantor in a form acceptable to the Construction/Acquisition Agent stating

whether there exists on the date of such certificate any Event of Default or event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, and, if so, setting forth the details thereof and the action which Guarantor has taken and proposes to take with respect thereto;

(iii) as soon as possible and in any event within five days after a change in, or issuance of, any rating of any of the Guarantor's senior unsecured long-term debt by Standard & Poor's Rating Services or Moody's Investors Services, Inc., notice to the Construction/Acquisition Agent of such change;

(iv) as soon as possible and in any event within five days after an executive officer of Guarantor obtaining knowledge thereof, notice of the occurrence of any Event of Default or any event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default, continuing on the date of such notice, and a statement of the chief financial officer of Guarantor

setting forth details of such Event of Default or event and the action that Guarantor has taken and proposes to take with respect thereto;

(v) such other information respecting the condition or operations, financial or otherwise, of Guarantor or any of its subsidiaries as any Construction/Acquisition Lender through the Construction/Acquisition Agent may from time to time reasonably request.

(b) Compliance with Laws, Etc. Comply, and cause each of its subsidiaries to comply, with all applicable laws, rules, regulations and orders to the extent noncompliance therewith would have a material adverse effect on Guarantor and its subsidiaries taken as a whole, such compliance to include without limitation compliance with Environmental Laws and the paying before the same become delinquent of all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith.

(c) Maintenance of Insurance. Maintain insurance, and cause Borrower and the Affiliates to maintain, with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties as Guarantor or such other Person.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of Borrower and the Affiliates to preserve and maintain, its legal existence, rights and franchises; provided, that this Section 4.1(d) shall not apply to any transaction or matter permitted by Section 5.1(a) or (b); provided, that Guarantor, Borrower and the Affiliates shall not be required to preserve any right or franchise if Guarantor or such other Person reasonably determines that the preservation thereof is no longer desirable in the conduct of the business of Guarantor or such other Person, as the case may be, and that the loss thereof is not disadvantageous in any material respect to the Construction/Acquisition Lenders.

(e) Visitation Rights. At any reasonable time and from time to time, after reasonable notice, permit the Construction/Acquisition Agent or any of the Construction/Acquisition Lenders or any agent or representative thereof to examine the records and books of account of, and visit the properties of, Guarantor,

Borrower and the Affiliates, and to discuss the affairs, finances and accounts of Guarantor and any of such other Persons with any of their respective officers or directors.

ARTICLE V
NEGATIVE COVENANTS

Section 5.1 Negative Covenants. Guarantor will not at any time, without the prior written consent of the Construction/Acquisition Lenders:

(a) Mergers, Etc. Merge or consolidate with or into any Person unless (i) Guarantor is the survivor or (ii) the surviving Person, if not Guarantor, is organized under the laws of the United States or a state thereof and assumes all obligations of Guarantor under this Guaranty and executes and delivers to the Construction/Acquisition Agent documents reasonably satisfactorily in form and substance to the Construction/Acquisition Agent pursuant to which such Person acknowledges and assumes all obligations of Guarantor hereunder; provided, in each case that immediately after giving effect to such proposed transaction, no Event of Default or event which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default would exist or result.

(b) Disposition of Assets. Lease, sell, transfer or otherwise dispose of, voluntarily or involuntarily, all or substantially all of its assets.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.1 Events of Default. The occurrence and continuance of any of the following events shall constitute an "Event of Default":

(a) Any representation or warranty made by Guarantor or any of its officers under or in connection with any Document proves to have been incorrect in any material respect when made or deemed made.

(b) Guarantor fails to perform or observe any term, covenant or agreement contained in Articles IV and V or fails to perform or observe any other term, covenant or agreement contained in any Document on its Part to be performed or observed and such failure remains unremedied for five (5) days after the occurrence thereof; provided, that if such failure can not be remedied within such five (5) day period and if Guarantor is diligently seeking to remedy such failure, and if such failure is reasonably likely to be remedied within thirty (30) days after the initial five

(5) day period, then Guarantor shall have an additional thirty (30) days to remedy such failure.

(c) Guarantor or any of its subsidiaries fails to pay any principal of or premium or interest on any Indebtedness which is outstanding in the principal amount of at least $1,000,000 in the aggregate when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure continues after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any other event occurs or condition exists under any agreement or instrument relating to any such Indebtedness and continues after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate the maturity of such Indebtedness; or any such Indebtedness is declared to be due and payable, or required to be

prepaid (other than by a regularly scheduled required prepayment or as a result of the giving of notice of a voluntary prepayment), prior to the stated maturity thereof.

(d) Guarantor or any of its subsidiaries generally fails to pay its debts as such debts become due, or admits in writing its inability to pay its debts generally, or makes a general assignment for the benefit of creditors; or any proceeding is instituted by or against Guarantor or any of its subsidiaries seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for the relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), remains undismissed or unstayed for a period of 60 days; or Guarantor or any of its subsidiaries takes any corporate action to authorize any of the actions set forth above in this paragraph (d).

(e) Any judgment, decree or order for the payment of money in excess of $1,000,000 is rendered against Guarantor or any of its subsidiaries and remains unsatisfied and either (i) enforcement proceedings have been commenced by any creditor upon such judgment, decree or order or (ii) there shall be any period of 60 consecutive days during which a stay of enforcement of such judgment, decree or order, by reason of a pending appeal or otherwise, shall not be in effect.

(f) Any provision of this Guaranty for any reason is not or ceases to be valid and binding on Guarantor or Guarantor so states in writing.

ARTICLE VII
MISCELLANEOUS

Section 7.1 Costs and Expenses. Except as herein otherwise expressly provided, Guarantor covenants and agrees to pay or reimburse the Construction/Acquisition Agent and the Construction/Acquisition Lenders upon request for all reasonable expenses, disbursements, fees, costs and commissions incurred or made by the Construction/Acquisition Agents or the Construction/Acquisition Lenders (including the reasonable compensation and expenses and disbursements of counsel and of persons not regularly in their employ) in connection with (i) the enforcement of or attempt to enforce, or collection of or attempt to collect any amount due under, this Guaranty or (ii) any waiver, extension, amendment or modification of any provision of this Guaranty.

Section 7.2 Election of Remedies. Each and every right, power and remedy herein given to the Construction/Acquisition Agent and the Construction/Acquisition Lenders, or otherwise existing, shall be cumulative and not exclusive, and shall be in addition to all other rights, powers and remedies now or hereafter granted or otherwise existing. Each and every right, power and remedy, whether specifically herein given or otherwise existing, may be exercised from time to time and as often and in such order as may be deemed expedient by the Construction/Acquisition Agent or the Construction/Acquisition Lenders.

Section 7.3 Effect of Delay or Omission to Pursue Remedy. No single or partial waiver by the Construction/Acquisition Agent or the Construction/Acquisition Lenders of any right, power or remedy, or delay or omission by the Construction/Acquisition Agent or the Construction/Acquisition Lenders in the exercise of any right, power or remedy shall impair any such right, power or remedy or operate as a waiver thereof or of any other right,

power or remedy then or thereafter existing. Any waiver given by the Construction/Acquisition Agent or the Construction/Acquisition Lenders of any right, power or remedy in any one instance shall only be effective in that specific instance and only for the purpose for which given, and will not be construed as a waiver of any right, power or remedy on any future occasion.

Section 7.4 Guarantor's Waivers. Guarantor waives any and all promptness, diligence, notice of the creation or acceptance, any other notice, renewal, extension or accrual of any of the Obligations and notice of or proof of

reliance by the Construction/Acquisition Agent or the Construction/Acquisition Lenders upon this Guaranty or acceptance of this Guaranty or any action taken or omitted in reliance hereon. The Obligations, and any of them, shall conclusively be deemed to have been created, contracted, incurred, renewed, extended, amended or waived in reliance upon this Guaranty and all dealings among Guarantor, Borrower, the Construction/Acquisition Agent and the Construction/Acquisition Lenders shall likewise be conclusively presumed to have been had or consummated in reliance upon this Guaranty. Guarantor further waives diligence, presentment, demand for payment or performance, notice, any requirement that any right or power be exhausted or any action be taken against Borrower or Guarantor or against any Collateral, protest of all promissory notes or other instruments included in or evidencing any of the Obligations or Collateral, and all other demands in connection with the delivery, acceptance, performance, default or enforcement of any such promissory note or other instrument or this Guaranty or any other requirement that the Construction/Acquisition Agent or the Construction/Acquisition Lenders protect, secure, perfect or insure any security interest or lien on any property subject thereto or exhaust any right or take any action against Borrower, Guarantor or any other Person, or any Collateral.

Section 7.5 Amendment. This Guaranty may not be modified, amended, terminated or revoked, in whole or in part, except by an agreement in writing signed by the Construction/Acquisition Agent and Guarantor. No waiver of any term, covenant or provision of this Guaranty, or consent given hereunder, shall be effective unless given in writing by the Construction/Acquisition Agent.

Section 7.6 Notices. Unless otherwise specifically provided herein, any notice or other communication required or permitted to be given shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by overnight courier service or United States mail (return receipt requested) and shall be deemed to have been given (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 p.m. (New York, New York time) or, if not, on the next succeeding Business Day; (c) if delivered by reputable overnight courier, two (2) days after delivery to such courier properly addressed; or (d) if by U.S. Mail, four (4) Business Days after deposit in the United States mail, with postage prepaid and properly addressed.

Notices shall be addressed as follows:

If to Guarantor:

NRG ENERGY, INC.
1221 Nicollet Mall

Minneapolis, Minnesota 55403
Attention: Executive Director Finance
Telecopy: (612) 373-5336

With a copy to:

NRG ENERGY, INC.
1221 Nicollet Mall

Minneapolis, Minnesota 55403
Attention: General Counsel
Telecopy: (612) 373-5392

If to the Construction/Acquisition Agent or any Construction/Acquisition Lender:

CREDIT LYONNAIS NEW YORK BRANCH
1301 Avenue of the Americas
New York, New York 10019
Attention: Mr. Martin A. Cunningham
Telecopy: (212) 261-7887

With a copy to:

CHADBOURNE & PARKE LLP
1200 New Hampshire Avenue, N.W.
Washington, D.C. 20036
Attention: Cornelius J. Golden, Jr., Esq.
Telecopy: (202) 974-5602

or in any case, to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this Section 7.6. A notice not given as provided above shall, if it is in writing, be deemed given if and when actually received by the party to whom given.

Section 7.7 Successors and Assigns. This Guaranty shall be binding upon and shall inure to the benefit of Guarantor, the Construction/Acquisition Agent and the Construction/Acquisition Lenders and their respective successors and permitted assigns. Notwithstanding the foregoing, Guarantor shall have no right to assign its rights or obligations hereunder (whether by operation of law or otherwise) without the prior written consent of the Construction/Acquisition Agent and any purported transfer without such prior written consent shall be void. No assignment by Guarantor of any rights or obligations under this Guaranty shall release Guarantor therefrom unless the

Construction/Acquisition Agent has consented to such release in a writing specifically referring to the obligation from which Guarantor is to be released.

Section 7.8 Headings. The article and section headings used in this Guaranty are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

Section 7.9 CONSENT TO JURISDICTION. ALL LEGAL ACTIONS OR PROCEEDINGS BROUGHT AGAINST GUARANTOR WITH RESPECT TO THIS GUARANTY MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS GUARANTY GUARANTOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES THE JURISDICTION OF THE AFORESAID COURTS AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS GUARANTY. GUARANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES ANY CLAIM OR DEFENSE IN ANY SUCH ACTION OR PROCEEDING BASED ON ANY ALLEGED LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS OR ANY SIMILAR BASIS. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE CONSTRUCTION/ACQUISITION AGENT OR THE CONSTRUCTION/ACQUISITION LENDERS TO BRING PROCEEDINGS AGAINST GUARANTOR IN THE COURTS OF ANY OTHER JURISDICTION OR TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW.

Section 7.10 GOVERNING LAW. THIS GUARANTY WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, OTHER THAN CONFLICT OF LAWS PRINCIPLES THAT WOULD APPLY THE LAWS OF ANOTHER JURISDICTION, AND EXCEPT TO THE EXTENT THAT THE LAWS OF ANOTHER JURISDICTION ARE MANDATORILY APPLICABLE.

Section 7.11 WAIVER OF JURY TRIAL. GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH THIS GUARANTY.

Section 7.12 AGENT FOR SERVICE OF PROCESS. GUARANTOR HEREBY AGREES TO DESIGNATE, APPOINT AND EMPOWER CT CORPORATION SYSTEM, NEW YORK, NEW YORK, AS ITS AUTHORIZED AGENT TO RECEIVE FOR AND ON ITS BEHALF SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER LEGAL PROCESS IN ANY

ACTION, SUIT OR PROCEEDING IN THE STATE OF NEW YORK. AS LONG AS THIS GUARANTY REMAINS IN FORCE, GUARANTOR SHALL MAINTAIN A DULY APPOINTED AGENT FOR THE SERVICE OF SUMMONS, COMPLAINT AND OTHER LEGAL PROCESS IN NEW YORK, NEW YORK, FOR PURPOSES OF ANY LEGAL ACTION, SUIT OR PROCEEDING THE CONSTRUCTION/ACQUISITION AGENT OR THE CONSTRUCTION/ACQUISITION LENDERS MAY BRING IN RESPECT OF THIS GUARANTY. GUARANTOR SHALL KEEP THE CONSTRUCTION/ACQUISITION AGENT ADVISED OF THE IDENTITY AND LOCATION OF SUCH AGENT. GUARANTOR ALSO IRREVOCABLY CONSENTS, IF FOR ANY REASON GUARANTOR'S AUTHORIZED AGENT FOR SERVICE OF PROCESS OF SUMMONS, COMPLAINT AND OTHER LEGAL PROCESS IN ANY SUCH ACTION, SUIT OR PROCEEDING IS NOT PRESENT IN NEW YORK, NEW YORK, THAT SERVICE OF SUCH PAPERS MAY BE MADE OUT OF THOSE COURTS BY MAILING COPIES OF THE PAPERS BY DELIVERY THEREOF TO IT BY HAND OR BY MAIL TO THE ADDRESS SET FORTH IN SECTION 7.6. SERVICE IN THE MANNER PROVIDED IN THIS SECTION 7.12 IN ANY SUCH ACTION, SUIT OR PROCEEDING WILL BE DEEMED PERSONAL SERVICE, WILL BE ACCEPTED BY GUARANTOR AS SUCH AND WILL BE VALID AND BINDING UPON GUARANTOR FOR ALL PURPOSES OF ANY SUCH ACTION, SUIT OR PROCEEDING.

Section 7.13 Severability. If any provision hereof or of any promissory note or other instrument evidencing part or all of the Obligations is invalid or unenforceable in any jurisdiction, the other provisions hereof or thereof shall remain in full force and effect in such jurisdiction and the remaining provisions hereof shall be liberally construed in favor of the Construction/Acquisition Agent and the Construction/Acquisition Lenders in order to carry out the provisions hereof. The invalidity or unenforceability of any provision of this Guaranty in any jurisdiction shall not affect the validity or enforceability of any such provision in any other jurisdiction.

Section 7.14 Entire Agreement. This Guaranty constitutes the entire agreement and understanding of Guarantor with respect to the subject matter hereof and supersedes any and all prior and contemporaneous contracts, negotiations, agreements and understandings of Guarantor relating to the subject matter herein contained, whether oral or written. Guarantor hereby expressly acknowledges that it has not relied, in making this Guaranty, upon any statement or representation, not contained herein, made by any other party, including without limitation the Construction/Acquisition Agent, the Construction/Acquisition Lenders and Borrower.

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be executed and delivered on its behalf on the date first written above.

NRG ENERGY, INC.

By /s/ VALORIE A. KNUDSEN

Name: Valorie A. Knudsen
Title: Vice President Finance

NONOPERATING INTEREST ACQUISITION AGREEMENT

THIS AGREEMENT is entered into by and among NRG Energy, Inc. ("NRG"), and NEO Corporation (the "Operator") as of September 12, 1997.

Background of this Agreement

Operator extracts, produces, and utilizes gas elements ("Landfill Gas" or "LFG") from one or more landfills (the "Landfills"), and owns the rights necessary to enter upon the Landfills, and construct and operate LFG gathering, production and combustion equipment (the "Project"). Such Operator rights are herein referred to as the "Lease." As used in this Agreement, the term "Lease Area" means all of the lands, LFG leasehold interests and LFG interests intended to be developed and operated for LFG production under the Lease. Definitions not otherwise provided in this Agreement shall be as defined in the Construction, Acquisition and Term Loan Agreement dated September 12, 1997 among NEO Landfill Gas Inc. (the "Borrower"), Lyon Credit Corporation and Credit Lyonnais New York Branch (the "Agents") and the other parties thereto

Operator desires to convey, transfer and assign a nonoperating interest in the LFG in exchange for payments from NRG and NRG desires to acquire such a nonoperating interest including tax credits.

Terms of this Agreement

NOW, THEREFORE, in consideration of their mutual covenants set forth below and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Conveyance of Nonoperating Interest in LFG.

Subject to the terms and conditions of this Agreement, Operator hereby transfers, assigns and grants to NRG the right to receive all gross proceeds to be realized at any time by Operator resulting from sales of LFG produced from the Lease Area. Operator shall at all times be the operator of the Lease Area and shall conduct and direct and have full control of all operations on the Lease Area. Operator shall conduct all such operations in a good and workmanlike manner, but shall have no liability as Operator to NRG for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct. Nothing contained in this Agreement shall be deemed or construed for any purpose to establish, between Operator and NRG, a partnership or joint venture, or a principal-agent relationship.

2. Allocation of Section 29 Tax Credits to NRG.

The parties hereto acknowledge and intend that the conveyance of the nonoperating interest in Section 1 shall result in the allocation to NRG of all tax credits under Section 29 of the Internal Revenue Code ("Section 29") arising from the sale of LFG produced from the Lease Area (the "Section 29 Tax Credits").

3. Payments for Nonoperating Interest.

a. In exchange for the nonoperating interest, NRG shall pay to Operator the Quarterly Payment Amount solely with respect to periods ending on or before December 31, 2007. Payments with respect to such periods shall be the sole consideration for the nonoperating interest acquired hereunder, and no other payments with respect to any period ending after December 31, 2007 shall be due. The "Quarterly Payment Amount" for any calendar quarter shall mean an amount equal to the product of (a) mmBtu of LFG produced from the Lease Area during such calendar quarter, multiplied by (b) the Applicable Section 29

Credit Rate. The MMBTU shall be measured on a monthly basis at the interconnection point. For any calendar quarter, the "Applicable Section 29 Credit Rate" shall equal (x) the product of $3 times the "inflation adjustment factor" divided by (y) 5.8. "Inflation adjustment factor" has the same meaning as in Section 29(d)(2)(B) of the Internal Revenue Code as in effect on the date of this Agreement. If the Internal Revenue Service has not yet published the inflation adjustment factor with respect to a calendar quarter, then the Quarterly Payment Amount shall be computed using the most recently announced inflation adjustment factor. Upon publication of such information, there shall be a reconciling adjustment, upwards or downwards as the case may be, to reflect the actual credit amount determined to be in effect for such calendar quarters.

b. If no LFG is produced, then no Section 29 Tax Credit will accrue for the month so measured and the Quarterly Payment Amount will be adjusted accordingly.

c. Except as stated in Section (b) above, the Quarterly Payment Amount shall be due in all cases, regardless of whether:

(i) NRG or any of its affiliates can utilize any of the Section 29 Tax Credits to offset Federal income tax liability;

(ii) The Project fails to qualify for Section 29 Tax Credits due to problems with binding contracts, failure to be placed in service on time, failure to find a buyer for the LFG, failure to make LFG sales to related persons or problems with the deal structure;

(iii) The Project qualifies for Section 29 Tax Credits but only through 2002, for any reason including because the facilities that collect LFG

were considered to have been originally placed in service before 1993;

(iv) There is a reduction in Section 29 Tax Credits allocated to NRG pursuant to Section 29(d)(3) of the Internal Revenue Code because other persons besides NRG are considered to have an "interest" in a Project;

(v) There is a reduction in Section 29 Tax Credits under Section 29(b)(3) of the Internal Revenue Code because the Project benefited from grants, tax-exempt financing or subsidized energy financing;

(vi) There is a phase-out of the Section 29 Tax Credits under Section (b)(1) of the Internal Revenue Code due to escalating oil prices; or

(vii) The Section 29 Tax Credit or the federal income tax is repealed before 2008.

d. In the event that the Section 29 Tax Credits become unavailable to NRG because Congress repeals Section 29 as it applies to landfill gas facilities such as the Project, NRG shall nonetheless continue to be obligated to make the Quarterly Payment Amounts throughout the term of this Agreement. With respect to any calendar year for which such a repeal has become effective, the "Applicable Section 29

Credit Rate" shall be equal to the Applicable Section 29 Credit Rate in effect for the last year prior to the year of such repeal without any further adjustments for inflation.

4. Quarterly Payments to Operator.

NRG shall pay the Quarterly Payment Amount to Operator in cash within 30 days after the last day of each calendar quarter.

5. No Offset.

Payments required to be made by NRG pursuant to this Agreement will be made without offset for amounts that Operator may owe NRG.

6. Representations and Warranties of NRG.

NRG represents and warrants that as of the date hereof:

a. It is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power,

authority and legal right to execute, deliver and carry out the terms and provisions of this Agreement;

b. The execution, delivery and performance of this Agreement have been duly authorized by all necessary corporate action;

c. The execution, delivery and performance of this Agreement will not (i) require any consent or approval of any shareholder of NRG or Government Instrumentality that has not been obtained, (ii) violate any provision of any of law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to NRG, or (iii) result in a breach of or constitute a default under any material agreement binding upon NRG, and

d. This Agreement constitutes a valid and legally binding agreement of NRG, enforceable in accordance with its terms except as the enforceability of this Agreement may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally and by general principles of equity.

7. Representations and Warranties of Operator.

Operator represents and warrants that as of the date hereof:

a. It is a limited liability company or corporation duly organized, validly existing and in good standing under the laws of the State within which it is organized, and has the power, authority and legal right to execute, deliver and carry out the terms and provisions of this Agreement;

b. The execution, delivery and performance of this Agreement have been duly authorized by all necessary corporate action;

c. The execution, delivery and performance of this Agreement will not (i) require any consent or approval of any member or shareholder of Operator or Government Instrumentality that has not been obtained, (ii) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Operator, or (iii) result in a breach of or

constitute a default under any material agreement binding upon Operator; and

d. This Agreement constitutes a valid and legally binding agreement of Operator, enforceable in accordance with its terms except as the enforceability of this Agreement may be limited by the effect of any

applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditor's rights generally and by general principles of equity.

8. Other Business Activities; Disclosure; Waiver.

Each of the parties may engage in or possess any interest in any other business venture of any nature or description independently or with others, and the other party shall not have any right by virtue of this Agreement in and to such business venture or the income or profits derived therefrom or to prevent the other party from engaging in such business venture.

9. Scope of Authority; Indemnification.

Operator shall not take any action on behalf of or in the name of NRG, or enter into any commitment or obligation purporting to be binding upon NRG, except for actions expressly provided for in this Agreement. Operator shall indemnify and hold harmless NRG, its partners, affiliates, shareholders, directors and officers from and against any and all claims, demands, losses, damages, liabilities, lawsuits and other proceedings, judgments, and awards, and costs and expenses (including, but not limited to, reasonable attorneys' fees) which any of them may incur or which may be claimed against any of them by any person or entity in connection with, resulting from, or arising directly or indirectly, in whole or in part, out of the acts or omission of Operator with respect to the Project or the Lease or out of any breach of this Agreement by the Operator. Notwithstanding the foregoing, any indemnification obligation of the Operator to NRG under this Agreement shall be subordinate to the payment in full of Operator's Obligations to the Agents and Lenders pursuant to the terms of the Loan Agreement.

10. Term of this Agreement.

This Agreement shall commence with respect to Operator on the Term Loan Conversion Date for the Project associated with such Operator. This Agreement shall terminate on December 31, 2007 or the date of the indefeasible payment in full of all Obligations under the Loan Agreement.

11. Notices and Communications.

All notices and other communications required or permitted to be given or made hereunder shall be in writing and, shall be delivered to such address as any party may from time to time designate in writing. Notices or communications given as set forth herein shall be conclusively deemed to have been received by the party to whom addressed when delivered.

12. Binding Provisions.

The covenants and agreements contained in this Agreement shall be binding upon the heirs, personal representatives, successors and permitted assigns of the respective parties to this Agreement.

13. Severability.

If any provision of this Agreement is held to be illegal, invalid, or unenforceable under the present or future laws effective during the terms of this Agreement, such provision shall be fully severable, and this Agreement

will be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part of this Agreement, and the remaining provisions of this Agreement will remain in full force and effect, and will not be affected by the illegal, invalid, or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid, or unenforceable provision, there will be added automatically as a part of this Agreement a provision as similar in terms and effect to such illegal, invalid or unenforceable provision as would be legal, valid and enforceable.

14. Entire Agreement.

This Agreement constitutes the entire understanding and agreement among the parties with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous agreements and understandings, inducements, or conditions, express or implied, oral or written, except as contained in this Agreement.

15. Applicable Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota.

16. Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which when taken together, shall constitute one and the same instrument, binding on the parties hereto. The signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

17. Third-Party Beneficiaries.

Except as otherwise provided in this Section 17, this Agreement is made solely and specifically among and for the benefit of the parties hereto, and their respective successors and assigns, and no other person will have any rights, interest, or claim hereunder or be entitled to any benefits under or on account of this Agreement whether as a third party beneficiary or otherwise. NRG acknowledges that Operator has collaterally

assigned its right, title and interest in, to and under this Agreement to Lyon Credit Corporation, as agent (the "Agent") for the Lenders under the Loan Agreement. NRG intends that the Agent will be a third-party beneficiary to this Agreement to the extent of such collateral assignment with the right to enforce this Agreement against NRG directly. The Agent may bring an action to enforce this Agreement against NRG directly without any requirement for notice to the Operator and without waiting for the Operator to enforce its rights under this Agreement. Any successors or assigns of the Agent will possess the same rights as the Agent as a third-party beneficiary under this Agreement. In addition, NRG has executed a Consent and Agreement dated of even date herewith, consenting to the assignment by the Operator of all of its right, title and interest in, to and under this Agreement to the Agent.

18. Amendment of Agreement.

This Agreement may be amended only by a writing duly executed by all of the parties hereto; provided, however, that no amendment to this Agreement shall be effective without the prior written consent of the Agent.

IN WITNESS WHEREOF, the parties hereto acknowledge that this Agreement is their free act and that they have executed this Agreement as of the day and year first above written.

NRG ENERGY, INC.

By: /s/ JAMES J. BENDER
Title: VP & GC

NEO CORPORATION

By: /s/ PETER D. JONES
Title: Manager

NEO Albany LLC

NEO Edgeboro LLC

NEO Fitchburgh LLC

NEO Lowell LLC

Miramar Landfill Gas LLC

NEO Spokane LLC

NEO Taunton LLC

NEO Tulare LLC

NEO Tomoka Farms LLC

NEO Yolo LLC

NEO Cuyahoga LLC

NEO Hartford LLC

NEO Prima Deshecha LLC

NEO Prince William LLC

NEO Tacoma LLC

NEO West Covina LLC

NEO Hackensack LLC

NEO Lopez Canyon LLC

NEO Corporation

EXHIBIT 12.1

NRG ENERGY, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,					SIX MONTHS ENDED JUNE 30,	
	1992	1993	1994	1995	1996	1996	1997
Income (loss) before income taxes .	$(5,307)	$4,528	$ 32,010	$ 40,011	$ 14,323	$ 3,714	$ 6,337
Undistributed equity in operating earnings of unconsolidated affiliates	(633)	(874)	(18,511)	(20,074)	(17,827)	204	(12,957)
Equity in gain from project termination settlements	--	--	(9,685)	(29,850)	--	--	--
Cash distributions from project termination settlements	--	--	9,685	14,179	15,671	15,671	--
	(5,940)	3,654	13,499	4,266	12,167	19,589	(6,620)
Interest expense	1,622	2,679	6,682	7,089	15,430	7,277	11,182
Interest capitalized	--	--	45	253	364	216	85
Amortization of debt issuance costs	44	41	42	41	149	80	163
Reasonable approximation of the interest factor of rental expense	33	50	59	265	247	211	168
Total fixed charges	1,699	2,770	6,828	7,648	16,190	7,784	11,598
Earnings	$(4,241)	$6,424	$ 20,327	$ 11,914	$ 28,357	$27,373	$ 4,978
Ratio of earnings to fixed charges (C)(D)	(A)	2.32	2.98	1.56	1.75	3.52	(B)

- ------------

(A) Due primarily to the loss incurred in 1992, NRG was unable to fully cover fixed charges. Earnings did not cover fixed charges by $5,940.

(B) Due primarily to undistributed equity earnings exceeding income before income taxes, NRG was unable to fully cover fixed charges. Earnings did not cover fixed charges by $6,620.

(C) The 1995 ratio of earnings to fixed charges calculation includes the effect of an equity gain and cash distribution from a project termination settlement. If the project termination had not occurred, NRG would have been unable to fully cover fixed charges and earnings would not have covered fixed charges by $9,913.

(D) The 1996 ratio of earnings to fixed charges calculation includes the effect of a cash distribution from a 1995 project termination settlement. If the project termination had not occurred, NRG would have been unable to fully cover fixed charges and earnings would not have covered fixed charges by $3,504 for the year ended December 31, 1996.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated April 8, 1997 relating to the financial statements of NRG Energy, Inc. for the two years ended December 31, 1996, which appears in such Prospectus. We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Price Waterhouse LLP
Price Waterhouse LLP
Minneapolis, Minnesota
October 8, 1997

EXHIBIT 23.2

INDEPENDENT AUDITOR'S CONSENT

We consent to the use in this Registration Statement of NRG Energy, Inc. on Form S-1 of our report dated March 24, 1995, appearing in the Prospectus, which is a part of this Registration Statement, and to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
October 8, 1997

EXHIBIT 23.3

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our reports dated March 21, 1997 relating to the financial statements of Sunshine State Power BV and Sunshine State Power (No. 2) BV for the three years ended December 31, 1996, which appear in such Prospectus. We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Price Waterhouse Netherland BV
Price Waterhouse Netherland BV
Amsterdam, The Netherlands
October 8, 1997

EXHIBIT 23.4

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-33397) of our report dated February 29, 1996 on our audits of the financial statements of San Joaquin Valley Energy Partners I, L.P. We also consent to the reference of our firm under the caption "Experts."

/s/ Coopers & Lybrand L.L.P.
Sacramento, California
October 8, 1997

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LETTER OF TRANSMITTAL

NRG ENERGY, INC.
OFFER FOR ALL OUTSTANDING
7 1/2% SENIOR NOTES DUE 2007
IN EXCHANGE FOR
7 1/2% SENIOR NOTES DUE 2007
WHICH HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933
PURSUANT TO THE PROSPECTUS, DATED _____, 1997

- ---

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M. NEW YORK CITY TIME, ON _____, _____, 1997, UNLESS EXTENDED (THE "EXPIRATION DATE"). TENDERS MAY BE WITHDRAWN PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE

- ---

Mail Delivery To: Norwest Bank Minnesota, National Association, Exchange Agent

By Registered or Certified Mail:
Norwest Bank Minnesota,
National Association
P.O. Box 1517
Minneapolis, Minnesota 55480-1517
Attention: Corporate Trust Operations

By Hand Delivery:
Norwest Bank Minnesota,
National Association
Northstar East 12th Floor
608 2nd Avenue
Minneapolis, Minnesota 55479-0113
Attention: Corporate Trust Operations

By Overnight Delivery:
Norwest Bank Minnesota,
National Association
Norwest Center
6th and Marquette Avenue
Minneapolis, Minnesota 55479-0069
Attention: Corporate Trust Operations

By Facsimile:
(612) 667-4927
Confirm by Telephone:
(612) 667-9764

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY.

The undersigned acknowledges that he has received the Prospectus, dated _____, 1997 (the "Prospectus"), of NRG Energy, Inc., a Delaware corporation ("NRG"), and this Letter of Transmittal (the "Letter"), which together constitute NRG's offer (the "Exchange Offer") to exchange an aggregate principal amount of up to $250,000,000 of its 7 1/2% Senior Notes due 2007 which have been registered under the Securities Act of 1933 (the "New Notes") of NRG for a like principal amount of the issued and outstanding 7 1/2% Senior Notes due 2007 (the "Old Notes") of NRG from the holders thereof.

For each Old Note accepted for exchange, the holder of such Old Note will receive a New Note having a principal amount equal to that of the surrendered Old Note. The New Notes will bear interest from the most recent date to which interest has been paid on the Old Notes surrendered in exchange therefor or, if no interest has been paid on the Old Notes, from June 17, 1997. If NRG fails to comply with certain registration obligations as set forth in the Registration Rights Agreement, dated as of June 12, 1997, NRG shall pay special interest (up to a maximum of 0.25% of the principal amount per annum) to holders of Old Notes affected thereby. See "Description of Notes--Exchange Offer; Special Interest" section in the Prospectus. Holders of Old Notes accepted for exchange will be deemed to have waived the right to receive any other payment or accrued interest on the Old Notes. NRG reserves the right, at any time or from time to time, to extend the Exchange Offer at its discretion, in which event the term "Expiration Date" shall mean the latest time and date to which the Exchange

Offer is extended. NRG shall notify the holders of the Old Notes of any extension by means of a press release or other public announcement prior to 9:00 A.M., New York City time, on the next business day after the previously scheduled Expiration Date.

This Letter is to be completed by a holder of Old Notes either if certificates are to be forwarded herewith or if a tender of Old Notes, if available, is to be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedures for tender set forth in "The Exchange Offer--Book Entry Transfer" section of the Prospectus. Holders who are Book-Entry Transfer Facility participants tendering by book-entry transfer must execute such tender through the Automated Tender Offer Program ("ATOP"). A Holder using ATOP should transmit its acceptance to the Book- Entry Transfer Facility on or prior to the Expiration Date. The Book-Entry Transfer Facility will verify such acceptance, execute a book-entry transfer of the tendered Old Notes into the Exchange Agent's account at the Book- Entry Transfer Facility, and then send to the Exchange Agent confirmation of such book-entry transfer (a "Book- Entry Confirmation"), including an Agent's Message confirming that the Book-Entry Transfer Facility has received an express acknowledgement from such Holder that such Holder has received and agrees to be bound by this Letter of Transmittal and that NRG may enforce this Letter of Transmittal against such Holder. The Book-Entry Confirmation must be received by the Exchange Agent in order for the tender relating thereto to be effective. Holders of Old Notes whose certificates are not immediately available, or who are unable to deliver their certificates or confirmation of book-entry tender of their Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility and all other documents required by this Letter to the Exchange Agent on or prior to the Expiration Date, must tender their Old Notes according to the guaranteed delivery procedures set forth in "The Exchange Of- fer--Guaranteed Delivery Procedures" section of the Prospectus.

DELIVERY OF DOCUMENTS TO THE BOOK-ENTRY TRANSFER FACILITY DOES NOT CONSTITUTE DELIVERY TO THE EXCHANGE AGENT.

The undersigned has completed the appropriate boxes below and signed this Letter to indicate the action the undersigned desires to take with respect to the Exchange Offer.

List below the Old Notes to which this Letter relates. If the space provided below is inadequate, the certificate numbers and principal amount of Old Notes should be listed on a separate signed schedule affixed hereto.

DESCRIPTION OF OLD NOTES	1	2	3
NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK)	CERTIFICATE NUMBER(S)*	AGGREGATE PRINCIPAL AMOUNT OF OLD NOTE(S)	PRINCIPAL AMOUNT TENDERED**
	TOTAL		

* Need not be completed if Old Notes are being tendered by book-entry transfer.

** Unless otherwise indicated in this column, a holder will be deemed to have tendered ALL of the Old Notes represented by the Old Notes indicated in column 2. See Instruction 2. Old Notes tendered hereby must be in denomination of principal amount of $1,000 or an integral multiple thereof. See Instruction 1.

[ ] CHECK HERE IF TENDERED OLD NOTES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO THE ACCOUNT MAINTAINED BY THE EXCHANGE AGENT WITH THE

BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of Tendering Institution

Account Number --- Transaction Code Number ---

[ ] CHECK HERE IF TENDERED OLD NOTES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of Registered Holder(s)

Window Ticket Number (if any)

Date of Execution of Notice of Guaranteed Delivery

Name of Institution which Guaranteed Delivery

IF DELIVERED BY BOOK-ENTRY TRANSFER, COMPLETE THE FOLLOWING:

Account Number --- Transaction Code Number ---

[ ] CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name

Address

- ---

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to NRG the aggregate principal amount of Old Notes indicated above. Subject to, and effective upon, the acceptance for exchange of the Old Notes tendered hereby, the undersigned hereby sells, assigns and transfers to, or upon the order of, NRG all right, title and interest in and to such Old Notes as are being tendered hereby.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Old Notes tendered hereby and that when the same are accepted for exchange, NRG will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and that the Old Notes are not subject to any adverse claim when the same are accepted by NRG. The undersigned hereby further represents that any New Notes acquired in exchange for Old Notes tendered hereby will have been acquired in the ordinary course of business of

the person receiving such New Notes, whether or not such person is the undersigned, that neither the holder of such Old Notes nor any such other person has an arrangement or understanding with any person to participate in the distribution of such New Notes and that neither the holder of such Old Notes nor any such other person is an "affiliate," as defined in Rule 405 under the Securities Act of 1933, as amended (the "Securities Act"), of NRG.

The undersigned also acknowledges that this Exchange Offer is being made in reliance on an interpretation by the staff of the Securities and Exchange Commission (the "SEC"), as set forth in no-action letters issued to third parties, that the New Notes issued in exchange for the Old Notes pursuant to the Exchange Offer may be offered for resale, resold and otherwise transferred by holders thereof (other than any such holder that is an "affiliate" of NRG within the meaning of Rule 405 under the Securities Act), without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holders' business and such holders have no arrangement with any person to participate in the distribution of such New Notes. If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of New Notes. If any holder is an affiliate of NRG or is engaged in or has any arrangement or understanding with respect to the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such holder (i) could not rely on the applicable interpretations of the staff of the SEC and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. If the undersigned is a broker-dealer that will receive New Notes for its own account in exchange for Old Notes, it represents that the Old Notes to be exchanged for the New Notes were acquired by it as a result of market-making activities or other trading activities, it represents to NRG that it will deliver a prospectus in connection with any resale of such New Notes; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

The undersigned will, upon request, execute and deliver any additional documents deemed by NRG to be necessary or desirable to complete the sale, assignment and transfer of the Old Notes tendered hereby. All authority conferred or agreed to be conferred in this Letter and every obligation of the undersigned hereunder will be binding upon the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the undersigned and will not be affected by, and will survive, the death or incapacity of the undersigned. This tender may be withdrawn only in accordance with the procedures set forth in "The Exchange Offer--Withdrawal of Tenders" section of the Prospectus.

Unless otherwise indicated herein in the box entitled "Special Issuance Instructions" below, please deliver the New Notes (and, if applicable, substitute certificates representing Old Notes for any Old Notes not exchanged) in the name of the undersigned or, in the case of a book-entry delivery of Old Notes, please credit the account indicated above at the Book-Entry Transfer Facility. Similarly, unless otherwise indicated herein in the box entitled "Special Delivery Instructions" below, please send the New Notes (and, if applicable, substitute certificates representing Old Notes for any Old Notes not exchanged) to the undersigned at the address shown above in the box entitled "Description of Old Notes."

THE UNDERSIGNED, BY COMPLETING THE BOX ENTITLED "DESCRIPTION OF OLD NOTES" ABOVE AND SIGNING THIS LETTER, WILL BE DEEMED TO HAVE TENDERED THE OLD NOTES AS SET FORTH IN SUCH BOX ABOVE.

- ---

SPECIAL ISSUANCE INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if certificates for Old Notes not exchanged and/or New Notes are to be issued in the name of and sent to someone other than the person or persons whose signature(s) appear(s) below on this Letter, or if Old Notes delivered by book-entry transfer that are not accepted for exchange are to be returned by credit to an account maintained at the Book-Entry Transfer Facility other than the account indicated above.

Issue: New Notes and/or Old Notes to:

Names(s)

(PLEASE TYPE OR PRINT)

- ---
(PLEASE TYPE OR PRINT)

Address

- ---
(INCLUDE ZIP CODE)
(COMPLETE SUBSTITUTE FORM W-9)

[ ] Credit unexchanged Old Notes delivered by book-entry transfer to the Book-Entry Transfer Facility account set forth below.

- ---

(BOOK-ENTRY TRANSFER FACILITY)

- ---

- ---

SPECIAL DELIVERY INSTRUCTIONS
(SEE INSTRUCTIONS 3 AND 4)

To be completed ONLY if certificates for Old Notes not exchanged and/or New Notes are to be sent to someone other than the person or persons whose signature(s) appear(s) below on this Letter or to such person or persons at an address other than shown in the box entitled "Description of Old Notes" above on this Letter.

Mail: New Notes and/or Old Notes to:

Name(s)

(PLEASE TYPE OR PRINT)

- ---
(PLEASE TYPE OR PRINT)

Address

(INCLUDE ZIP CODE)

IMPORTANT: THIS LETTER OR A FACSIMILE HEREOF (TOGETHER WITH THE CERTIFICATES FOR OLD NOTES OR A BOOK-ENTRY CONFIRMATION AND ALL OTHER REQUIRED DOCUMENTS OR THE NOTICE OF GUARANTEED DELIVERY) MUST BE RECEIVED BY THE EXCHANGE AGENT PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

PLEASE READ THIS ENTIRE LETTER OF TRANSMITTAL CAREFULLY BEFORE COMPLETING ANY BOX ABOVE.

PLEASE SIGN HERE
(TO BE COMPLETED BY ALL TENDERING HOLDERS)
(COMPLETE ACCOMPANYING SUBSTITUTE FORM W-9 ON REVERSE SIDE)

Dated ....., 1997

X ....., 1997

X ....., 1997
SIGNATURE(S) OF OWNER DATE

Area Code and Telephone Number .....

If a holder is tendering any Old Notes, this Letter must be signed by the registered holder(s) as the name(s) appear(s) on the certificate(s) for the Old Notes or by any person(s) authorized to become registered holder(s) by endorsements and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, officer or other person acting in a fiduciary or representative capacity, please set forth full title. See Instruction 3.

Name(s) .....

.....
(PLEASE TYPE OR PRINT)

Capacity .....

Address .....

.....
(INCLUDE ZIP CODE)

SIGNATURE(S) GUARANTEE
(IF REQUIRED BY INSTRUCTION 3)

Signature(s) Guaranteed by
an Eligible Institution .....
(AUTHORIZED SIGNATURE)

.....
(TITLE)

.....
(NAME AND FIRM)

Dated ....., 1997

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE EXCHANGE OFFER FOR ALL OUTSTANDING 7 1/2% SENIOR NOTES DUE 2007 IN EXCHANGE FOR THE 7 1/2% SENIOR NOTES DUE 2007 WHICH HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OF NRG ENERGY, INC.

1. DELIVERY OF THIS LETTER AND NOTES; GUARANTEED DELIVERY PROCEDURES.

This letter is to be completed by holders of Old Notes either if certificates are to be forwarded herewith or if tenders are to be made pursuant to the procedures for delivery by book-entry transfer set forth in "The Exchange Offer--Book-Entry Transfer" section of the Prospectus. Holders who are Book-Entry Transfer Facility participants tendering by Book-Entry transfer must execute such tender to the Book-Entry Transfer Facility's ATOP system. A Holder using ATOP should transmit its acceptance to the Book-Entry Transfer Facility on or prior to the Expiration Date. The Book-Entry Transfer Facility will verify such acceptance, execute a book-entry transfer of the tendered Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility, and then send to the Exchange Agent confirmation of such book-entry transfer (a "Book-Entry Confirmation"), including an Agent's Message confirming that the Book-Entry Transfer Facility has received an express acknowledgement from such Holder that such Holder has received and agrees to be bound by this Letter of Transmittal and that NRG may enforce this Letter of Transmittal against such Holder. The Book-Entry confirmation must be received by the Exchange Agent in order for the tender relating thereto to be effective. Certificates for all physically tendered Old Notes, or Book-Entry Confirmation, as the case may be, as well as a properly completed and duly executed Letter (or manually signed facsimile hereof) and any other documents required by this Letter, must be received by the Exchange Agent at the address set forth herein on or prior to the Expiration Date, or the tendering holder must comply with the guaranteed delivery procedures set forth below. Old Notes tendered hereby must be in denominations of principal amount of $1,000 or an integral multiple thereof.

Holders of Old Notes whose certificates for Old Notes are not immediately available or who cannot deliver their certificates and all other required documents to the Exchange Agent on or prior to the Expiration Date, or who cannot complete the procedure for book-entry transfer on a timely basis, may tender their Old Notes pursuant to the guaranteed delivery procedures set forth in "The Exchange Offer--Guaranteed Delivery Procedures" section of the Prospectus. Pursuant to such procedures, (i) such tender must be made through an Eligible Institution, (ii) prior to Expiration Date, the Exchange Agent must receive from such Eligible Institution a properly completed and duly executed Letter (or a facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by NRG (by telegram, telex, facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of Old Notes and the amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that within three New York Stock Exchange, Inc. ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes in proper form for transfer, or, if using ATOP, a Book-Entry Confirmation and any other documents required by the Letter will be deposited by the Eligible Institution with the Exchange Agent, and (iii) the certificates for all physically tendered Old Notes, in proper form for transfer, or, if using ATOP, a Book-Entry Confirmation and all other documents required by this Letter, are received by the Exchange Agent within three NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

The method of delivery of this Letter, the Old Notes and all other required documents is at the election and risk of the tendering holders and the

delivery will be deemed made only when actually received or confirmed by the Exchange Agent. If Old Notes are sent by mail, it is suggested that the mailing be made sufficiently in advance of the Expiration Date to permit delivery to the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date.

See "The Exchange Offer" section of the Prospectus.

2. PARTIAL TENDERS (NOT APPLICABLE TO HOLDERS OF OLD NOTES WHO TENDER BY BOOK-ENTRY TRANSFER).

If less than all the Old Notes evidenced by a submitted certificate are to be tendered, the tendering holder(s) should fill in the aggregate principal amount of Old Notes to be tendered in the box above entitled "Description of Old Notes--Principal Amount Tendered." In such case, a reissued certificate representing the balance of Old Notes not tendered will be sent to such tendering holder, unless otherwise provided in the appropriate box on this Letter, promptly after the Expiration Date. ALL OF THE OLD NOTES DELIVERED TO THE EXCHANGE AGENT WILL BE DEEMED TO HAVE BEEN TENDERED UNLESS OTHERWISE INDICATED.

3. SIGNATURES ON THIS LETTER; POWERS OF ATTORNEY AND ENDORSEMENTS; GUARANTEE OF SIGNATURES.

If this Letter is signed by the registered holder of the Old Notes tendered hereby, the signature must correspond exactly with the name as written on the face of the certificates without any change whatsoever.

If any tendered Old Notes are owned of record by two or more joint owners, all of such owners must sign this Letter.

If any tendered Old Notes are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter as there are different registrations of certificates.

When this Letter is signed by the registered holder or holders of the Old Notes specified herein and tendered hereby, no endorsements of certificates or separate powers of attorney are required. If, however, the New Notes are to be issued, or any untendered Old Notes are to be reissued, to a person other than the registered holder, then endorsements of any certificates transmitted hereby or separate powers of attorney are required. Signatures on such certificate(s) must be guaranteed by an Eligible Institution.

If this Letter is signed by a person other than the registered holder or holders of any certificate(s) specified herein, such certificate(s) must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders appear(s) on the certificate(s) and signatures on such certificate(s) must be guaranteed by an Eligible Institution.

If this Letter or any certificates or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by NRG, proper evidence satisfactory to NRG of their authority to so act must be submitted with this Letter.

ENDORSEMENTS ON CERTIFICATES FOR OLD NOTES OR SIGNATURES ON POWERS OF ATTORNEY REQUIRED BY THIS INSTRUCTION 3 MUST BE GUARANTEED BY A FINANCIAL

INSTITUTION (INCLUDING MOST BANKS, SAVINGS AND LOAN ASSOCIATIONS AND BROKERAGE HOUSES) THAT IS A PARTICIPANT IN THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM, THE NYSE MEDALLION SIGNATURE PROGRAM OR THE STOCK EXCHANGE MEDALLION PROGRAM (COLLECTIVELY, "ELIGIBLE INSTITUTIONS").

SIGNATURES ON THIS LETTER NEED NOT BE GUARANTEED BY AN ELIGIBLE INSTITUTION, PROVIDED THE OLD NOTES ARE TENDERED: (I) BY A REGISTERED HOLDER OF OLD NOTES (WHICH TERM, FOR PURPOSES OF THE EXCHANGE OFFER, INCLUDES ANY PARTICIPANT IN THE BOOK-ENTRY TRANSFER FACILITY SYSTEM WHOSE NAME APPEARS ON A SECURITY POSITION LISTING AS THE HOLDER OF SUCH OLD NOTES) WHO HAS NOT COMPLETED THE BOX ENTITLED "SPECIAL ISSUANCE INSTRUCTIONS" OR "SPECIAL DELIVERY INSTRUCTIONS" ON THIS LETTER OR (II) FOR THE ACCOUNT OF AN ELIGIBLE INSTITUTION.

4. SPECIAL ISSUANCE AND DELIVERY INSTRUCTIONS.

Tendering holders of Old Notes should indicate in the applicable box the name and address to which New Notes issued pursuant to the Exchange Offer and/or substitute certificates evidencing Old Notes not exchanged are to be issued or sent, if different from the name or address of the person signing this Letter. In the case of issuance in a different name, the employer identification or social security number of the person named must also be indicated. Holders tendering Old Notes by book-entry transfer may request that Old Notes not exchanged be

credited to such account maintained at the Book-Entry Transfer Facility as such holder may designate hereon. If no such instructions are given, such Old Notes not exchanged will be returned to the name or address of the person signing this Letter.

5. TAX IDENTIFICATION NUMBER.

Federal income tax law generally requires that a tendering holder whose Old Notes are accepted for exchange must provide NRG (as payor) with such holder's correct Taxpayer Identification Number ("TIN") on Substitute Form W-9 below, which in the case of a tendering holder who is an individual, is his social security number. If NRG is not provided with the current TIN or an adequate basis for an exemption, such tendering holder may be subject to a $50 penalty imposed by the Internal Revenue Service. In addition, delivery to such tendering holder of New Notes may be subject to backup withholding in an amount equal to 31% of all reportable payments made after the exchange. If withholding results in an overpayment of taxes, a refund may be obtained.

EXEMPT HOLDERS OF OLD NOTES (INCLUDING, AMONG OTHERS, ALL CORPORATIONS AND CERTAIN FOREIGN INDIVIDUALS) ARE NOT SUBJECT TO THESE BACKUP WITHHOLDING AND REPORTING REQUIREMENTS. SEE THE ENCLOSED GUIDELINES OF CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 (THE "W-9 GUIDELINES") FOR ADDITIONAL INSTRUCTIONS.

To prevent backup withholding, each tendering holder of Old Notes must provide its correct TIN by completing the Substitute Form W-9 set forth below, certifying that the TIN provided is correct (or that such holder is awaiting a TIN) and that (i) the holder is exempt from backup withholding or (ii) the holder has not been notified by the Internal Revenue Service that such holder is subject to backup withholding as a result of a failure to report all interest or dividends or (iii) the Internal Revenue Service has notified the holder that such holder is no longer subject to backup withholding. If the tendering holder of Old Notes is a nonresident alien or foreign entity not subject to backup withholding, such holder must give NRG a completed Form W-8, Certificate of Foreign Statutes. These forms may be obtained from the Exchange Agent. If the Old Notes are in more than one name or are not in the name of the actual owner, such holder should consult the W-9 Guidelines for information on

which TIN to report. If such holder does not have a TIN, such holder should consult the W-9 Guidelines for instructions on applying for a TIN, check the box in Part 2 of the Substitute Form W-9 and write "applied for" in lieu of its TIN. Note: Checking this box and writing "applied for" on the form means that such holder has already applied for a TIN or that such holder intends to apply for one in the near future. If such holder does not provide its TIN to NRG within 60 days, backup withholding will begin and continue until such holder furnishes its TIN to NRG.

6. TRANSFER TAXES.

NRG will pay all transfer taxes, if any, applicable to the transfer of Old Notes to it or its order pursuant to the Exchange Offer. If, however, New Notes and/or substitute Old Notes not exchanged are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the Old Notes tendered hereby, or if tendered Old Notes are registered in the name of any person other than the person signing this Letter, or if a transfer tax is imposed for any reason other than the transfer of Old Notes to NRG or its order pursuant to the Exchange Offer, the amount of any such transfer taxes (whether imposed on the registered holder or any other persons) will be payable by the tendering holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted herewith, the amount of such transfer taxes will be billed directly to such tendering holder.

EXCEPT AS PROVIDED IN THIS INSTRUCTION 6, IT WILL NOT BE NECESSARY FOR TRANSFER TAX STAMPS TO BE AFFIXED TO THE OLD NOTES SPECIFIED IN THIS LETTER.

7. WITHDRAWAL RIGHTS.

Except as otherwise provided herein, tenders of Old Notes may be withdrawn at any time on or prior to the Expiration Date. In order for a withdrawal to be effective on or prior to that time, a written, telegraphic, telex or facsimile transmission of such notice of withdrawal must be timely received by the Exchange Agent at one of its addresses set forth above or in the Prospectus on or prior to the Expiration Date. Any such notice of withdrawal must specify the name of the person who tendered the Old Notes to be withdrawn, the aggregate principal amount of Old Notes to be withdrawn and (if Certificates for Old Notes have been tendered) the name of the registered holder of the Old Notes as set forth on the Certificate for the Old Notes, if different from that of the person who

tendered such Old Notes. If Certificates for the Old Notes have been delivered or otherwise identified to the Exchange Agent, then prior to the physical release of such Certificates for the Old Notes, the tendering holder must submit the serial numbers shown on the particular Certificates for the Old Notes to be withdrawn and the signature on the notice of withdrawal must be guaranteed by an Eligible Institution, except in the case of Old Notes tendered for the account of an Eligible Institution. If Old Notes have been tendered pursuant to the procedures for book-entry transfer set forth in the Prospectus under "The Exchange Offer--Procedures for Tendering Old Notes," the notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawal of Old Notes, in which case a notice of withdrawal will be effective if delivered to the Exchange Agent by written, telegraphic, telex or facsimile transmission. Withdrawals of tenders of Old Notes may not be rescinded. Old Notes properly withdrawn will not be deemed validly tendered for purposes of the Exchange Offer, but may be retendered at any subsequent time on or prior to the Expiration Date by following any of the procedures described in the Prospectus under "The Exchange Offer-Procedures for Tendering Old Notes."

All questions as to the validity, form and eligibility (including time of receipt) of such withdrawal notices will be determined by NRG, in its sole discretion, whose determination shall be final and binding on all parties.

Neither NRG, any affiliates or assigns of NRG, the Exchange Agent nor any other person shall be under any duty to give any notification of any irregularities in any notice of withdrawal or incur any liability for failure to give any such notification. Any Old Notes which have been tendered but which are withdrawn will be returned to the holder thereof without cost to such holder promptly after withdrawal.

8. IRREGULARITIES.

NRG will determine, in its sole discretion, all questions as to the form of documents, validity, eligibility (including time of receipt) and acceptance for exchange of any tender of Old Notes, which determination shall be final and binding on all parties. NRG reserves the absolute right to reject any and all tenders determined by them not to be in proper form or the acceptance of which, or exchange for which, may, in the view of counsel to NRG be unlawful. NRG also reserves the absolute right, subject to applicable law, to waive any of the conditions of the Exchange Offer set forth in the Prospectus under "The Exchange Offer-Conditions to the Exchange Offer" or any conditions or irregularity in any tender of Old Notes of any particular holder whether or not similar conditions or irregularities are waived in the case of other holders. NRGs interpretation of the terms and conditions of the Exchange Offer (including this Letter of Transmittal and the instructions hereto) will be final and binding. No tender of Old Notes will be deemed to have been validly made until all irregularities with respect to such tender have been cured or waived. NRG, any affiliates or assigns of NRG, the Exchange Agent, or any other person shall not be under any duty to give notification of any irregularities in tenders or incur any liability for failure to give such notification.

9. WAIVER OF CONDITIONS.

NRG reserves the absolute right to waive satisfaction of any or all conditions enumerated in the Prospectus.

10. NO CONDITIONAL TENDERS.

No alternative, conditional, irregular or contingent tenders will be accepted. All tendering holders of Old Notes, by execution of this Letter (or by book-entry transfer through ATOP), will waive any right to receive notice of the acceptance of their Old Notes for exchange.

Neither NRG, the Exchange Agent nor any other person is obligated to give notice to any defect or irregularity with respect to any tender of Old Notes nor will any of them incur any liability for failure to give any such notice.

11. MUTILATED, LOST, STOLEN OR DESTROYED OLD NOTES.

Any holder whose Old Notes have been mutilated, lost, stolen or destroyed should contact the Exchange Agent at the address indicated above for further instructions.

12. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES.

Questions relating to the procedure for tendering, as well as requests for additional copies of the Prospectus and this Letter, may be directed to the Exchange Agent, at the address and telephone number indicated above.

13. INCORPORATION OF LETTER TRANSMITTAL.

This Letter shall be deemed to be incorporated in and acknowledged and accepted by any tender through the Book-Entry Transfer Facility's ATOP

procedures by any Participant on behalf of itself and the beneficial owners of any Old Senior Notes so tendered.

TO BE COMPLETED BY ALL TENDERING H0LDERS

(SEE INSTRUCTION 5)

PAYOR'S NAME: NRG ENERGY, INC.

SUBSTITUTE FORM W-9 DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE PAYOR'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER ("TIN") AND CERTIFICATION	
PART 1--PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW.	TIN SOCIAL SECURITY NUMBER OR EMPLOYER IDENTIFICATION NUMBER
PART 2--TIN APPLIED FOR [ ]	

CERTIFICATION: UNDER THE PENALTIES OF PERJURY, I CERTIFY THAT:

(1) the number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me).

(2) I am not subject to backup withholding either because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

(3) any other information provided on this form is true and correct.

Signature _____ Date _____

You must cross out item (2) of the above certification if you have been notified by the IRS that you are subject to backup withholding because of underreporting of interest or dividends on your tax return and you have not been notified by the IRS that you are no longer subject to backup withholding.

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 2 OF SUBSTITUTE FORM W-9

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application

to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (b) I intend to mail or deliver an application in the near future. I understand that if I do not provide a taxpayer identification number by the time of the exchange, 31 percent of all reportable payments made to me thereafter will be withheld until I provide a number.

Signature	Date

NOTICE OF GUARANTEED DELIVERY
FOR
NRG ENERGY, INC.

This form or one substantially equivalent hereto must be used to accept the Exchange Offer of NRG Energy, Inc. ("NRG") made pursuant to the Prospectus, dated _____, 1997 (the "Prospectus"), if certificates for Old Notes of NRG are not immediately available or if the procedure for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach NRG prior to 5:00 p.m., New York City time, on the Expiration Date of the Exchange Offer. Such form may be delivered or transmitted by telegram, telex, facsimile transmission, mail or hand delivery to Norwest Bank Minnesota, National Association (the "Exchange Agent") as set forth below. In addition, in order to utilize the guaranteed delivery procedure to tender Old Notes pursuant to the Exchange Offer, a completed, signed and dated Letter of Transmittal (or facsimile thereof) must also be received by the Exchange Agent prior to 5:00 p.m., New York City time, on the Expiration Date. Capitalized terms not defined herein are defined in the Prospectus.

Main Delivery To: Norwest Bank Minnesota, National Association, Exchange Agent

By Registered or Certified Mail:
Norwest Bank Minnesota, National Association
P.O. Box 1517
Minneapolis, Minnesota 55480-1517
Attention: Corporate Trust Operations

By Hand Delivery:
Norwest Bank Minnesota, National Association
Northstar East 12th Floor
608 2nd Avenue
Minneapolis, Minnesota 55479-0113
Attention: Corporate Trust Operations

By Overnight Delivery:
Norwest Bank Minnesota, National Association
Norwest Center
6th and Marquette Avenue
Minneapolis, Minnesota 55479-0069
Attention: Corporate Trust Operations

By Facsimile:
(612) 667-4927
Confirm by Telephone:
(612) 667-9764

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY.

Ladies and Gentlemen:

Upon the terms and conditions set forth in the Prospectus and the accompanying Letter of Transmittal, the undersigned hereby tenders to NRG the principal amount of Old Notes set forth below, pursuant to the guaranteed delivery procedure described in "The Exchange Offer--Guaranteed Delivery Procedures" section of the Prospectus.

Principal Amount of Old Notes
Tendered:*

$

Certificate Nos. (if available)

If Old Notes will be delivered by book-entry transfer to The Depository Trust

Company, provide account number.

Total Principal Amount Represented by
Old Notes Certificates(s):

$ Account Number:
--- ---

- ---
* Must be in denominations of principal amount of $1,000 or an integral multiple thereof.

- ---
ALL AUTHORITY HEREIN CONFERRED OR AGREED TO BE CONFERRED SHALL SURVIVE THE DEATH OR INCAPACITY OF THE UNDERSIGNED AND EVERY OBLIGATION OF THE UNDERSIGNED HEREUNDER SHALL BE BINDING UPON THE HEIRS, PERSONAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS OF THE UNDERSIGNED.
- ---

PLEASE SIGN HERE

X
--- ---
X
--- ---
Signature(s) of Owner(s) or Authorized Signatory Date

Area Code and Telephone Number:

Must be signed by the holder(s) of Old Notes as their name(s) appear(s) on certificates for Old Notes or on a security position listing, or by person(s) authorized to become registered holder(s) by endorsement and documents transmitted with this Notice of Guaranteed Delivery. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, such person must set forth his or her full title below.

PLEASE PRINT NAME(S) AND ADDRESS(ES) (INCLUDE ZIP CODE)

Name(s)

Capacity

Address(es)

GUARANTEE

The undersigned, a financial institution (including most banks, savings and loan associations and brokerage houses) that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchange Medallion Program, hereby

guarantees that the certificates representing the principal amount of Old Notes tendered hereby in proper form for transfer, or timely confirmation of the book-entry transfer of such Old Notes into the Exchange Agent's account at The Depository Trust Company ("Book Entry Transfer Facility") pursuant to the procedures set forth in "The Exchange Offer--Guaranteed Delivery Procedures" section of the Prospectus, together with a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) with any required signature guarantee and any other documents required by the Letter of Transmittal, will be received by the Exchange Agent at the Address set forth above, no later than three New York Stock Exchange, Inc. trading days after the date of execution hereof.

Name of Firm	Authorized Signature
Address	Title
Include Zip Code	Name (Please Type or Print)
Area Code and Tel. No.	Dated

NOTE: DO NOT SEND CERTIFICATES FOR OLD NOTES WITH THIS FORM. CERTIFICATES FOR OLD NOTES SHOULD ONLY BE SENT WITH YOUR LETTER OF TRANSMITTAL.

October ____, 1997

Norwest Bank Minnesota, National Association
Norwest Center
6th & Marquette Avenue
Minneapolis, Minnesota 55479-0069

Ladies and Gentlemen:

NRG Energy, Inc., a corporation formed under the laws of the State of Delaware ("NRG") proposes to make an offer (the "Exchange Offer") to exchange its 7 1/2% Senior Notes due 2007 (the "Old Notes") for its 7 1/2% Senior Notes due 2007 which have been registered under the Securities Act of 1933 (the "New Notes"). The terms and conditions of the Exchange Offer as currently contemplated are set forth in a prospectus, dated ____, 1997 (the "Prospectus"), to be distributed to all record holders of the Old Notes. The Old Notes and the New Notes are collectively referred to herein as the "Notes."

NRG hereby appoints Norwest Bank Minnesota, National Association to act as exchange agent (the "Exchange Agent") in connection with the Exchange Offer. References hereinafter to "you" shall refer to Norwest Bank Minnesota, National Association.

The Exchange Offer is expected to be commenced by NRG on or about ____, 1997. The Letter of Transmittal accompanying the Prospectus (or in the case of book entry securities, the ATOP system) is to be used by the holders of the Old Notes to accept the Exchange Offer and contains instructions with respect to (i) the delivery of certificates for Old Notes tendered in connection therewith and (ii) the book-entry transfer of Notes to the Exchange Agent's account.

The Exchange Offer shall expire at 5:00 P.M., New York City time, on _____, 1997 or on such later date or time to which NRG may extend the Exchange Offer (the "Expiration Date"). Subject to the terms and conditions set forth in the Prospectus, NRG expressly reserves the right to extend the Exchange Offer from time to time by giving oral (to be confirmed in writing) or written notice to you before 9:00 A.M., New York City time, on

the business day following the previously scheduled Expiration Date.

NRG expressly reserves the right to amend or terminate the Exchange Offer, and not to accept for exchange any Old Notes not theretofore accepted for exchange, upon the occurrence of any of the conditions of the Exchange Offer specified in the Prospectus under the caption "The Exchange Offer--Conditions to the Exchange Offer." NRG will give oral (confirmed in writing) or written notice of any amendment, termination or nonacceptance of Old Notes to you promptly after any amendment, termination or nonacceptance.

In carrying out your duties as Exchange Agent, you are to act in accordance with the following instructions:

1. You will perform such duties and only such duties as are specifically set forth in the section of the Prospectus captioned "The Exchange Offer," the Letter of Transmittal or as specifically set forth herein; provided, however, that in no way will your general duty to act in good faith be discharged by the foregoing.

2. You will establish an account with respect to the Old Notes at The Depository Trust Company (the "Book- Entry Transfer Facility") for purposes of

the Exchange Offer within two business days after the date of the Prospectus, and any financial institution that is a participant in the Book-Entry Transfer Facility's system shall make book-entry delivery of the Old Notes by causing the Book-Entry Transfer Facility to transfer such Old Notes into your account in accordance with the Book-Entry Transfer Facility's procedure for such transfer.

3. You are to examine each of the Letters of Transmittal and certificates for Old Notes (or confirmation of book-entry transfer into your account at the Book-Entry Transfer Facility) and any other documents delivered or mailed to you by or for holders of the Old Notes to ascertain whether: (i) the Letters of Transmittal and any such other documents are duly executed and properly completed in accordance with instructions set forth therein and (ii) the Old Notes have otherwise been properly tendered. In each case where the Letter of Transmittal or any other document has been improperly completed or executed or any of the certificates for Old

Notes are not in proper form for transfer or some other irregularity in connection with the acceptance of the Exchange Offer exists, you will endeavor to inform the presenters of the need for fulfillment of all requirements and to take any other action as may be necessary or advisable to cause such irregularity to be corrected.

4. With the approval of any person designated in writing by NRG (a "Designated Officer") (such approval, if given orally, to be confirmed in writing) or any other party designated by any such Designated Officer in writing, you are authorized to waive any irregularities in connection with any tender of Old Notes pursuant to the Exchange Offer.

5. Tenders of Old Notes may be made only as set forth in the Letter of Transmittal and in the section of the Prospectus captioned "The Exchange Offer--Procedures for Tendering Old Notes," and Old Notes shall be considered properly tendered to you only when tendered in accordance with the procedures set forth therein.

Notwithstanding the provisions of this paragraph 5, Old Notes which any Designated Officer of NRG shall approve as having been properly tendered shall be considered to be properly tendered (such approval, if given orally, shall be confirmed in writing).

6. You shall advise NRG with respect to any Old Notes received subsequent to the Expiration Date and accept their instructions with respect to disposition of such Old Notes.

7. You shall accept tenders:

(a) in cases where the Old Notes are registered in two or more names only if signed by all named holders;

(b) in cases where the signing person (as indicated on the Letter of Transmittal) is acting in a fiduciary or a representative capacity only when proper evidence of such person's authority so to act is submitted; and

(c) from persons other than the registered holder of Old Notes provided that customary transfer requirements, including any applicable transfer taxes, are fulfilled.

You shall accept partial tenders of Old Notes where so indicated and as permitted in the Letter of Transmittal and deliver certificates for Old Notes to the transfer agent for split-up and return any untendered Old Notes to the holder (or such other person as may be designated in the Letter of Transmittal) as promptly as practicable after expiration or termination of the Exchange Offer.

8. Upon satisfaction or waiver of all of the conditions to the Exchange Offer, NRG will notify you of its acceptance, promptly after the Expiration Date, of all Old Notes properly tendered and you, on behalf of NRG, will exchange such Old Notes for New Notes and cause such Old Notes to be canceled. Delivery of New Notes will be made on behalf of NRG by you at the rate of $1,000 principal amount of New Notes for each $1,000 principal amount of the corresponding series of Old Notes tendered promptly after notice (such notice if given orally, to be confirmed in writing) of acceptance of said Old Notes by NRG; provided, however, that in all cases, Old Notes tendered pursuant to the Exchange Offer will be exchanged only after timely receipt by you of certificates for such Old Notes (or confirmation of book-entry transfer into your account at the Book-Entry Transfer Facility), a properly completed and duly executed Letter of Transmittal (or facsimile thereof) with any required signature guarantees and any other required documents (or an Agent's Message, if tendering through ATOP). You shall issue New Notes only in denominations of $1,000 or any integral multiple thereof. Old Notes may be tendered in whole or in part in denominations of $100,000 and integral multiples of $1,000 in excess thereof, provided that if any Old Notes are tendered for exchange in part, the untendered principal amount thereof must be $100,000 or any integral multiple of $1,000 in excess thereof.

9. Tenders pursuant to the Exchange Offer are irrevocable, except that, subject to the terms and upon the conditions set forth in the Prospectus and the Letter of Transmittal, Old Notes tendered pursuant to the Exchange Offer may be withdrawn at any time on or prior to the Expiration Date.

10. NRG shall not be required to exchange any Old Notes tendered if any of the conditions set forth in the Exchange Offer are not met. Notice of any decision by

NRG not to exchange any Old Notes tendered shall be given orally (and confirmed in writing) or in writing by NRG to you.

11. If, pursuant to the Exchange Offer, NRG does not accept for exchange all or part of the Old Notes tendered because of an invalid tender, the occurrence of certain other events set forth in the Prospectus under the caption "The Exchange Offer--Conditions to the Exchange Offer" or otherwise, you shall promptly after the expiration or termination of the Exchange Offer return those certificates for unaccepted Old Notes (or effect appropriate book-entry transfer), together with any related required documents and the Letters of Transmittal relating thereto that are in your possession, to the persons who deposited them.

12. All certificates for reissued Old Notes, unaccepted Old Notes or for New Notes shall be forwarded by (a) first-class certified mail, return receipt requested, under a blanket surety bond protecting you and NRG from loss or liability arising out of the non-receipt or non- delivery of such certificates, (b) by registered mail insured separately for the replacement value of each of such certificates, or (c) by appropriate book-entry transfer.

13. You are not authorized to pay or offer to pay any concessions, commissions or solicitation fees to any broker, dealer, bank or other persons or to engage or utilize any person to solicit tenders.

14. As Exchange Agent hereunder you:

(a) shall have no duties or obligations other than those specifically set forth in the section of the Prospectus captioned "The Exchange Offer," the Letter of Transmittal or herein or as may be subsequently agreed to in writing by you and NRG;

(b) will be regarded as making no representations and having no responsibilities as to the validity, sufficiency, value or genuineness of any of the certificates or the Old Notes represented thereby deposited with you pursuant to the Exchange Offer, and will not be required to and will make no representation as to the validity, value or genuineness of the Exchange Offer;

(c) shall not be obligated to take any legal action hereunder which might in your reasonable judgment involve any expense or liability, unless you shall have been furnished with reasonable indemnity;

(d) may reasonably rely on and shall be protected in acting in reliance upon any certificate, instrument, opinion, notice, letter, telegram or other document or security delivered to you and reasonably believed by you to be genuine and to have been signed by the proper party or parties;

(e) may reasonably act upon any tender, statement, request, agreement or other instrument whatsoever not only as to its due execution and validity and effectiveness of its provisions, but also as to the truth and accuracy of any information contained therein, which you shall in good faith believe to be genuine or to have been signed or represented by a proper person or persons;

(f) may rely on and shall be protected in acting upon written or oral instructions from any Designated Officer of NRG;

(g) may consult with your counsel with respect to any questions relating to your duties and responsibilities and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted to be taken by you hereunder in good faith and in accordance with the advice or opinion of such counsel; and

(h) shall not advise any person tendering Old Notes pursuant to the Exchange Offer as to the wisdom of making such tender or as to the market value or decline or appreciation in market value of any Old Notes.

15. You shall take such action as may from time to time be requested by NRG or its counsel or any Designated Officer of NRG (and such other action as you may reasonably deem appropriate) to furnish copies of the Prospectus, Letter of Transmittal and the Notice of Guaranteed Delivery (as defined in the Prospectus) or such other forms as may be approved from time to time by NRG to all persons requesting such documents and to accept and comply with telephone requests for information relating to the Exchange Offer, provided that such information

shall relate only to the procedures for accepting (or withdrawing from) the Exchange Offer. NRG will furnish you with copies of such documents at your request. All other requests for information relating to the Exchange Offer shall be directed to NRG, Attention: James J.

Bender.

16. You shall advise by facsimile transmission or telephone, and promptly thereafter confirm in writing to James J. Bender of NRG, and such other person or persons as NRG may request, daily (and more frequently during the week immediately preceding the Expiration Date and if otherwise requested) up to and including the Expiration Date, as to the number of Old Notes which have been tendered pursuant to the Exchange Offer and the items received by you pursuant to this Agreement, separately reporting and giving cumulative totals as to items properly received and items improperly received. In addition, you will also inform, and cooperate in making available to, NRG or any such other person or persons upon oral request made from time to time on or prior to the Expiration Date of such other information as it or such person reasonably requests. Such cooperation shall include, without limitation, the granting by you to NRG and such person as NRG may request of access to those persons on your staff who are responsible for receiving tenders, in order to ensure that immediately prior to the Expiration Date NRG shall have received information in sufficient detail to enable it to decide whether to extend the Exchange Offer. You shall prepare a final list of all persons whose tenders were accepted, the aggregate principal amount of Old Notes tendered, the aggregate principal amount of Old Notes accepted and deliver said list to NRG promptly after the Expiration Date.

17. Any Letters of Transmittal and Notices of Guaranteed Delivery which are received by the Exchange Agent shall be stamped by you as to the date and the time of receipt thereof and shall be preserved by you for a period of time at least equal to the period of time you preserve other records pertaining to the transfer of securities. You shall dispose of unused Letters of Transmittal and other surplus materials by returning them to NRG at the address set forth below for notices.

18. You hereby expressly waive any lien, encumbrance or right of set-off whatsoever that you may have with respect to funds deposited with you for the payment of transfer taxes by reasons of amounts, if any, borrowed by NRG, or any of its subsidiaries or affiliates pursuant to any loan or credit agreement with you or for compensation owed to you hereunder.

19. For services rendered as Exchange Agent hereunder, you shall be entitled to such compensation as set forth on Schedule I attached hereto.

20. You hereby acknowledge receipt of the Prospectus and the Letter of Transmittal and further acknowledge that you have examined each of them. Any inconsistency between this Agreement, on the one hand, and the Prospectus and the Letter of Transmittal (as they may be amended from time to time), on the other hand, shall be resolved in favor of the latter two documents, except with respect to the duties, liabilities and indemnification of you as Exchange Agent, which shall be controlled by this Agreement.

21. (a) NRG covenants and agrees to indemnify and hold you harmless in your capacity as Exchange Agent hereunder against any loss, liability, cost or expense, including reasonable attorneys' fees and expenses, arising out of or in connection with any act, omission, delay or refusal made by you in reliance upon any signature, endorsement, assignment, certificate, order, request, notice, instruction or other instrument or document reasonably believed by you to be valid, genuine and sufficient and in accepting any tender or effecting any transfer of Old Notes reasonably believed by you in good faith to be authorized, and in delaying or refusing in good faith to accept any tenders or effect any transfer of Old Notes; provided, however, that NRG shall not be liable for indemnification or otherwise for any loss, liability, cost or expense to the extent arising out of your negligence or willful misconduct. In no case shall NRG be liable under this indemnity with respect to any claim

against you unless NRG shall be notified by you, by letter or cable or by facsimile confirmed by letter, of the written assertion of a claim against you or of any other action commenced against you, promptly after you shall have received any such written assertion or notice of commencement of action. NRG shall be entitled to

participate at its own expense in the defense of any such claim or other action, and, if NRG so elects, NRG may assume the defense of any suit brought to enforce any such claim. In the event that NRG shall assume the defense of any such suit or threatened action in respect of which indemnification may be sought hereunder, NRG shall not be liable for the fees and expenses of any additional counsel thereafter retained by you so long as you consent to NRG's retention of counsel, which consent may not be unreasonably withheld; provided that NRG shall not be entitled to assume the defense of any such action if the named parties to such action include both NRG and you and representation of both parties by the same legal counsel would, in the written opinion of counsel to you, be inappropriate due to actual or potential conflicting interests between you and NRG. It is understood that NRG shall not be liable under this paragraph for the fees and expenses of more than one legal counsel for you. In the event that NRG shall assume the defense of any such suit, NRG shall not thereafter be liable for the fees and expenses of any counsel retained by you.

(b) You agree that, without the prior written consent of NRG, you will not settle, compromise or consent to the entry of any pending or threatened claim, action or proceeding in respect of which indemnification could be sought in accordance with the indemnification provisions of this Agreement (whether or not you or NRG or any of its trustees, or controlling persons is an actual or potential party to such claim, action or proceeding), unless such settlement, compromise or consent includes an unconditional release of NRG and its trustees and controlling persons from all liability arising out of such claim, action or proceeding.

22. You shall arrange to comply with all requirements under the tax laws of the United States, including those relating to missing Tax Identification Numbers, and shall file any appropriate reports with the Internal Revenue Service. NRG understands that you are required in certain instances to deduct 31% with respect to interest paid on the New Notes and proceeds from the sale, exchange, redemption or retirement of the New Notes from holders who have not supplied their correct Taxpayer Identification Number or required certification. Such funds will be turned over to the Internal Revenue Service in accordance with applicable regulations.

23. You shall notify NRG of the amount of any transfer taxes payable in respect of the exchange of Old Notes and, upon receipt of written approval from NRG, you shall deliver or cause to be delivered, in a timely manner to each governmental authority to which any transfer taxes are payable in respect of the exchange of Old Notes, your check in the amount of all transfer taxes so payable, and NRG shall reimburse you for the amount of any and all transfer taxes payable in respect of the exchange of Old Notes; provided, however, that you shall reimburse NRG for amounts refunded to you in respect of your payment of any such transfer taxes, at such time as such refund is received by you.

24. This Agreement and your appointment as Exchange Agent hereunder shall be construed and enforced in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such

state, and without regard to conflicts of law principles, and shall inure to the benefit of, and the obligations created hereby shall be binding upon, the successors and assigns of each of the parties hereto.

25. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

26. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

27. This Agreement shall not be deemed or construed to be modified, amended, rescinded, canceled or waived, in whole or in part, except by a written instrument signed by a duly authorized representative of the party to be charged. This Agreement may not be modified orally.

28. Unless otherwise provided herein, all notices, requests and other communications to any party hereunder shall be in writing (including facsimile or similar writing) and shall be given to such party, addressed to it, at its address or facsimile number set forth below:

If to NRG:

NRG Energy, Inc.
1221 Nicollet Mall
Minneapolis, MN 5403
Telephone: (612) 373-5300
Facsimile: (612) 373-5392
Attention: James J. Bender

If to the Exchange Agent:

Norwest Bank Minnesota, National Association
Norwest Center
6th & Marquette Avenue
Minneapolis, Minnesota 55479-0069
Telephone:
Facsimile:
Attention:

29. Unless terminated earlier by the parties hereto, this Agreement shall terminate 90 days following the Expiration Date. Notwithstanding the foregoing, Paragraphs 19, 21 and 23 shall survive the termination of this Agreement. Upon any termination of this Agreement, you shall promptly deliver to NRG any certificates for Notes, funds or property then held by you as Exchange Agent under this Agreement.

30. This Agreement shall be binding and effective as of the date hereof.

Please acknowledge receipt of this Agreement and confirm the

arrangements herein provided by signing and returning the enclosed copy.

NRG ENERGY, INC.

By:

Name:
Title:

Accepted as the date first above written:

NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION

By:

Name:
Title:

NORWEST BANK MINNESOTA, N.A.
FEE SCHEDULE
EXCHANGE AGENT SERVICES
FOR
NRG ENERGY, INC.

I. Exchange Agency

A fee for the receipt of exchanged 7 1/2% Senior Notes due 2007 of NRG Energy, Inc. will be _____.

This fee covers examination and execution of all required documentation, receipt of transmittal letters, reporting as required to the Company and communication with DTC.