
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2002.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from to .

Commission File No. 001-15891

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

41-1724239
*(I.R.S. Employer
Identification No.)*

**901 Marquette Avenue
Minneapolis, Minnesota**
(Address of principal executive offices)

55402
(Zip Code)

(612) 373-5300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

Corporate Units —

(Listed on the New York Stock Exchange)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is an accelerated filer as defined by Rule 12b-2 of the Act. Yes No

As of the last business day of the most recently completed second fiscal quarter, there were 3 shares of Class A Common Stock and 1 share of Common Stock outstanding, all of which were owned by Xcel Energy Wholesale Group Inc.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Class

Outstanding at March 31, 2003

Class A — Common Stock, \$0.01 par value

3 shares

Common Stock, \$0.01 par value

1 share

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Documents Incorporated by Reference:

None.

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PART I

Item 1 — *Business*

General

NRG Energy, Inc. (NRG Energy or the Company) is an energy company, primarily engaged in the ownership and operation of power generation facilities and the sale of energy, capacity and related products in the United States and internationally. NRG Energy is a wholly owned subsidiary of Xcel Energy Inc. (Xcel Energy), Xcel Energy directly owns six utility subsidiaries that serve electric and natural gas customers in 12 states. Xcel Energy also owns or has interest in a number of non-regulated businesses, the largest of which is NRG Energy.

Since the early 1990's, NRG Energy pursued a strategy of growth through acquisitions. Starting in 2000, NRG Energy added the development of new construction projects to this strategy. This strategy required significant capital, much of which was satisfied primarily with third party debt. As of December 31, 2002, NRG Energy had approximately \$9.4 billion of debt on its balance sheet at the corporate and project levels. Due to a number of reasons, including the overall down-turn in the energy industry, NRG Energy's financial condition has deteriorated significantly. As a direct consequence, in 2002 NRG Energy entered into discussions with its creditors in anticipation of a comprehensive restructuring in order to become a more stable and conservatively capitalized company. In connection with its restructuring efforts, it is likely that NRG Energy (and certain of its subsidiaries) will file for Chapter 11 bankruptcy protection. If NRG Energy were to file for Chapter 11 bankruptcy protection, Xcel Energy's equity ownership would most likely be eliminated and a large number of NRG Energy's creditors' claims would be impaired.

On March 26, 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with holders of most of NRG Energy's long-term notes and the steering committee representing NRG's bank lenders. The settlement is subject to certain conditions, including the approval of at least a majority in dollar amount of the NRG Energy bank lenders and long-term noteholders and definitive documentation. There can be no assurance that such approvals will be obtained. The terms of the settlement call for Xcel Energy to make payments to NRG Energy over the next 13 months totaling up to \$752 million for the benefit of NRG Energy's creditors in consideration for their waiver of any existing and potential claims against Xcel Energy. Under the settlement, Xcel Energy will make the following payments: (i) \$350 million at or shortly following the consummation of a restructuring of NRG Energy's debt. It is expected this payment would be made prior to year-end 2003; (ii) \$50 million on January 1, 2004. At Xcel Energy's option, it may fill this requirement with either cash or Xcel Energy common stock or any combination thereof; and (iii) \$352 million in April 2004.

NRG Energy is restructuring its operations to become a domestic based owner-operator of a fuel-diverse portfolio of electric generation facilities engaged in the sale of energy, capacity and related products. NRG Energy is working toward this goal by selective divestiture of non-core assets, consolidation of management, reorganization and redirection of power marketing philosophy and activities and an overall financial restructuring that will improve liquidity and reduce debt. NRG Energy does not anticipate any new significant acquisitions or construction, and instead will focus on operational performance and asset management. NRG Energy has already made significant reductions in expenditures, business development activities and personnel. Power sales, fuel procurement and risk management will remain a key strategic element of NRG Energy's operations. NRG Energy's objective will be to optimize the fuel input and the energy output of its facilities within an appropriate risk and liquidity profile.

NRG Energy was incorporated as a Delaware corporation on May 29, 1992. Its headquarters and principal executive offices are located at 901 Marquette Avenue, Suite 2300, Minneapolis, Minnesota 55402. NRG Energy's telephone number is (612) 373-5300. NRG Energy and Xcel Energy are required to file periodic reports and other documents with the SEC. The public may read and copy the materials filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at

1-800-SEC-0330. In addition, electronic copies of these periodic filings are available through the Commission's web site at www.sec.gov.

Liquidity and Capital Resources

Liquidity Issues — Current Status and Chain of Events

In December 2001, Moody's Investor Service (Moody's) placed NRG Energy's long-term senior unsecured debt rating on review for possible downgrade. In response, Xcel Energy and NRG Energy put into effect a plan to preserve NRG Energy's investment grade rating and improve its financial condition. This plan included financial support to NRG Energy from Xcel Energy; marketing certain NRG Energy assets for sale; canceling and deferring capital spending; and reducing corporate expenses.

In response to a possible downgrade, during 2002, Xcel Energy contributed \$500 million to NRG Energy, and NRG Energy and its subsidiaries sold assets and businesses that provided NRG Energy in excess of \$286 million in cash and eliminated approximately \$432.0 million in debt. NRG Energy also cancelled or deferred construction of approximately 3900 MW of new generation projects. On July 26, 2002, Standard & Poors' (S&P) downgraded NRG Energy's senior unsecured bonds to below investment grade, and three days later Moody's also downgraded NRG Energy's senior unsecured debt rating to below investment grade. Since July 2002, NRG Energy senior unsecured debt, as well as the secured NRG Northeast Generating LLC bonds, the secured NRG South Central Generating LLC bonds and secured LSP Energy (Batesville) bonds were downgraded multiple times. After NRG Energy failed to make payments due under certain unsecured bond obligations on September 16, 2002, both Moody's and S&P lowered their ratings on NRG Energy's and its subsidiaries' unsecured bonds once again. Currently, NRG Energy's unsecured bonds carry a rating of between CCC and D at S&P and between Ca and C at Moody's, depending on the specific debt issue.

As a result of the downgrade of NRG Energy's credit rating, declining power prices, increasing fuel prices, the overall down-turn in the energy industry and the overall down-turn in the economy, NRG Energy has experienced severe financial difficulties. These difficulties have caused NRG Energy to, among other things, miss scheduled principal and interest payments due to its corporate lenders and bondholders, prepay for fuel and other related delivery and transportation services and provide performance collateral in certain instances. NRG Energy has also recorded asset impairment charges of approximately \$3.1 billion, related to various operating projects, as well as projects that were under construction which NRG Energy has stopped funding.

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NRG Energy and its subsidiaries have failed to timely make the following interest and/or principal payments on its indebtedness:

Debt (\$ in millions)	Amount Issued	Rate	Maturity	Interest Due	Principal Due	Date Due
Recourse Debt (unsecured)						
NRG Energy ROARS	\$ 250.0	8.700%	3/15/2005	\$ 10.9	—	9/16/2002
	\$ 250.0	8.700%	3/15/2005	\$ 10.9	—	3/17/2003
NRG Energy senior notes	\$ 350.0	8.250%	9/15/2010	\$ 14.4	—	9/16/2002
	\$ 350.0	8.250%	9/15/2010	\$ 14.4	—	3/17/2003
NRG Energy senior notes	\$ 350.0	7.750%	4/1/2011	\$ 13.6	—	10/1/2002
NRG Energy senior notes	\$ 500.0	8.625%	4/1/2031	\$ 21.6	—	10/1/2002
NRG Energy senior notes	\$ 240.0	8.000%	11/1/2003	\$ 9.6	—	11/1/2002
NRG Energy senior notes	\$ 300.0	7.500%	6/1/2009	\$ 11.3	—	12/1/2002
NRG Energy senior notes	\$ 250.0	7.500%	6/15/2007	\$ 9.4	—	12/15/2002
NRG Energy senior notes	\$ 340.0	6.750%	7/15/2006	\$ 11.5	—	1/15/2003
NRG Energy senior debentures (NRZ Equity Units)	\$ 287.5	6.500%	5/16/2006	\$ 4.7	—	11/16/2002
	\$ 287.5	6.500%	5/16/2006	\$ 4.7	—	2/17/2003
NRG Energy senior notes	\$ 125.0	7.625%	2/1/2006	\$ 4.8	—	2/1/2003
NRG Energy 364-day corporate revolving facility	\$ 1,000.0	various	3/7/2003	\$ 7.6	—	9/30/2002
	\$ 1,000.0	various	3/7/2003	\$ 18.6	—	12/31/2002
Non-Recourse Debt (secured)						
NRG Northeast Generating LLC	\$ 320.0	8.065%	12/15/2004	\$ 5.1	\$ 53.5	12/15/2002
NRG Northeast Generating LLC	\$ 130.0	8.842%	6/15/2015	\$ 5.7	—	12/15/2002
NRG Northeast Generating LLC	\$ 300.0	9.292%	12/15/2024	\$ 13.9	—	12/15/2002
NRG South Central Generating LLC	\$ 500.0	8.962%	3/15/2016	\$ 20.2	\$ 12.8	9/16/2002
	\$ 500.0	8.962%	3/15/2016	—	\$ 12.8	3/17/2003
NRG South Central Generating LLC	\$ 300.0	9.479%	9/15/2024	\$ 14.2	—	9/16/2002

These missed payments may have also resulted in cross-defaults of numerous other non-recourse and limited recourse debt instruments of NRG Energy. In addition, the following issues have been accelerated, rendering the debt immediately due and payable: on November 6, 2002, lenders to NRG Energy accelerated the approximately \$1.1 billion of debt under the construction revolver facility; on November 21, 2002, the bond trustee, on behalf of bondholders, accelerated the approximately \$750 million of debt under the NRG South Central Generating, LLC facility; and on February 27, 2003, ABN Amro, as administrative agent, accelerated the approximately \$1.0 billion corporate revolver financing facility.

Since September, the following payments were made: on December 10, 2002, \$16.0 million in interest, principal, and swap payments were made from restricted cash accounts in relation to the \$325,000,000 Series A Floating Rate Senior Secured Bonds due 2019, issued by NRG Peaker Finance Company LLC (the "Peaker financing facility"); on December 27, 2002, NRG Northeast made the \$24.7 million interest payment due on the NRG Northeast bonds but failed to make the \$53.5 million principal payment; in January 2003, the South Central Generating bondholders unilaterally withdrew \$35.6 million from a restricted revenue account relating to the September 15, 2002 interest payment and fees; and on March 17, 2003 South Central bondholders were paid \$34.4 million due in relation to the March semi-annual interest payment, but the \$12.8 million principal payment was deferred.

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In addition to the payment defaults described above, prior to the downgrades, many corporate guarantees and commitments of NRG Energy and its subsidiaries required that they be supported or replaced with letters of credit or cash collateral within 5 to 30 days of a ratings downgrade below Baa3 or BBB- by Moody's or Standard & Poor's, respectively. As a result of the downgrades on July 26 and July 29, NRG Energy received demands to post collateral aggregating approximately \$1.1 billion.

On August 19, 2002, NRG Energy executed a Collateral Call Extension Letter (CCEL) with various secured project lender groups in which the banks agreed to extend until September 13, 2002, the deadline by which NRG Energy was to post its approximately \$1.0 billion of cash collateral in connection with certain bank loan agreements.

Effective as of September 13, 2002, NRG Energy and these various secured project lenders entered into a Second Collateral Call Extension Letter (Second CCEL) that extended the deadline until November 15, 2002. Under the Second CCEL, NRG Energy agreed to submit to the lenders a comprehensive restructuring plan. NRG Energy submitted this plan on November 4, 2002 and continues to work with its lenders and advisors on an overall restructuring of its debt (see further discussion below). The November 15, 2002 deadline of the second CCEL passed without NRG Energy posting the required collateral. NRG Energy and the secured project lenders continue to work toward a plan of restructuring.

In August 2002, NRG Energy retained financial and legal restructuring advisors to assist its management in the preparation of a comprehensive financial and operational restructuring. NRG Energy and its advisors have been meeting regularly to discuss restructuring issues with an ad hoc committee of its bondholders and a steering committee of its bank lenders (the Ad Hoc Creditors Committees).

To aid in the design and implementation of a restructuring plan, in the fall of 2002, NRG Energy prepared a comprehensive business plan and forecast. Anticipating that NRG Energy's creditors will own all or substantially all of NRG Energy's equity interests after implementing the restructuring plan, any plans and efforts to integrate NRG Energy's business operations with those of Xcel Energy were terminated. Using commodity, emission and capacity prices provided by an independent energy consulting firm to develop forecasted cash flow information, management concluded that the forecasted free cash flow available to NRG Energy after servicing project level obligations will be insufficient to service recourse debt obligations at the NRG Energy corporate level. Based on that forecast, it is anticipated that NRG Energy will remain in default of the various corporate level debt obligations discussed more fully herein.

Based on this information and in consultation with Xcel Energy and its financial and legal restructuring advisors, NRG Energy prepared a comprehensive financial restructuring plan. In November 2002, NRG Energy and Xcel Energy presented the plan to the Ad Hoc Creditors Committees. The restructuring plan has served as a basis for continuing negotiations between the Ad Hoc Creditors Committees, NRG Energy and Xcel Energy related to a consensual plan of reorganization for NRG Energy. Negotiations have progressed substantially since the initial plan was presented in November. If an agreement to a consensual plan of reorganization is negotiated and NRG Energy is unable to effectuate the restructuring through an exchange offer or other non-bankruptcy mechanism, it is highly probable that such plan would be implemented through the commencement of a voluntary Chapter 11 bankruptcy proceeding. There can be no assurance that NRG Energy's creditors, including, but not limited to the Ad Hoc Committees, will agree to the terms of the consensual plan of reorganization currently being negotiated. In addition, there can be no guarantee that lenders will not seek to enforce their remedies under the various loan agreements, provided that any such attempted enforcement would be subject to the automatic stay and other relevant provisions of the bankruptcy code. The commencement of a voluntary Chapter 11 bankruptcy proceeding without a consensual plan of reorganization would increase the possibility of a prolonged bankruptcy proceeding.

On November 22, 2002, five former NRG Energy executives filed an involuntary Chapter 11 petition against NRG Energy in U.S. Bankruptcy Court for the District of Minnesota. Under provisions of the Bankruptcy Code, NRG Energy has the full authority to continue to operate its business as if the involuntary petition had not been filed unless and until a court hearing on the validity of the involuntary petition is resolved adversely to NRG Energy. On December 16, 2002, NRG Energy responded to the involuntary petition, contesting the petitioners' claims and filing a motion to dismiss the case. On February 19, 2003, NRG Energy

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announced that it had reached a settlement with the petitioners. The U.S. Bankruptcy Court for the District of Minnesota will hear NRG Energy's motion to consider the settlement and/or dismiss the involuntary petition. Two of NRG Energy's creditors have objected to the motion to dismiss. There can be no assurance that the court will dismiss the involuntary petition. The Bankruptcy Court has discretion in the review of the settlement agreement. There is a risk that the Bankruptcy Court may, among other things, reject the settlement agreement or enter an order for relief under Chapter 11.

On March 26, 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with holders of most of NRG Energy's long-term notes and the steering committee representing NRG's bank lenders. The settlement is subject to certain conditions, including the approval of at least a majority in dollar amount of the NRG Energy bank lenders and long-term noteholders and definitive documentation. There can be no assurance that such approvals will be obtained. The terms of the settlement call for Xcel Energy to make payments to NRG Energy over the next 13 months totaling up to \$752 million for the benefit of NRG Energy's creditors in consideration for their waiver of any existing and potential claims against Xcel Energy. Under the settlement, Xcel Energy will make the following payments: (i) \$350 million at or shortly following the consummation of a restructuring of NRG Energy's debt. It is expected this payment would be made prior to year-end 2003; (ii) \$50 million on January 1, 2004. At Xcel Energy's option, it may fill this requirement with either cash or Xcel Energy common stock or any combination thereof; and (iii) \$352 million in April 2004.

Domestic Assets

Eastern Region

The Eastern Region, comprising investments in the New York Independent System Operator (NYISO), New England Power Pool (NEPOOL) and Pennsylvania, New Jersey, Delaware and Maryland (PJM) markets, is NRG Energy's largest asset base. As of December 31, 2002, NRG Energy owned approximately 7,040 MW of net generating capacity in the Northeast United States and Canada, primarily in New York, Connecticut and Massachusetts. These generation facilities are diversified in terms of dispatch level (base-load, intermediate and peaking), fuel type (coal, natural gas and oil) and customers.

NRG Energy's Northeast facilities are generally competitively positioned within their respective market dispatch levels with favorable market dynamics and locations close to the major load centers in the NYISO and NEPOOL.

As of December 31, 2002, NRG Energy owned approximately 1,400 MW of net generating capacity in the Mid-Atlantic region of the United States, primarily Delaware, Maryland, Virginia and Pennsylvania. These facilities are primarily coal-type and are diversified in terms of dispatch. These facilities provide interconnect to the PJM market.

Central Region

As of December 31, 2002, NRG Energy owned approximately 6400 MW of net generating capacity (including projects under construction) in the Central United States, primarily in Louisiana, Illinois, Mississippi, Missouri, Oklahoma and Texas. NRG Energy's Central generating assets consist primarily of its net ownership of power generation facilities in New Roads, Louisiana (which are referred to as the Cajun facilities) and its net ownership of power generation facilities in Kendall and Rockford, Illinois. The Central region also includes the Sterlington, McClain, Bayou Cove, Batesville, Rocky Road, Audrain and Mustang generating facilities.

NRG Energy's portfolio of plants in Louisiana and Mississippi comprise the second largest generator in the Southeastern Electric Reliability Counsel/ Entergy (SERC/ETR) region. The core of these assets are the Cajun facilities with capacity over 2000 MW of primarily coal-fired assets supported by long-term power purchase agreements with regional cooperatives.

West Coast Region

As of December 31, 2002, NRG Energy owned approximately 1,230 MW of net generating capacity on the West Coast of the United States, primarily California and Nevada. NRG Energy's West Coast generation assets consist primarily of a 50% interest in West Coast Power LLC (West Coast Power), and a 50% interest in the Saguaro generation facility.

In May 1999, Dynegy Power Corporation (Dynegy) and NRG Energy formed West Coast Power to serve as the holding company for a portfolio of operating companies that own generation assets in Southern California. This portfolio currently is comprised of the El Segundo Generating Station, the Long Beach Generating Station, the Encina Generating Station and 17 combustion turbines in the San Diego area. Dynegy provides power marketing and fuel procurement services to West Coast Power, and NRG Energy provides operations and management services. An application for a permit to repower the existing El Segundo site, replacing the retired unit 1 & 2 with 600 MW of new generation has been filed. The permit is in the CEC (California Energy Commission) review process, and it is anticipated that the approval will be received by third or fourth quarter of 2003.

International Assets

Historically, the majority of power generating capacity outside of the United States has been owned and controlled by governments. During the past decade, however, many foreign governments moved to privatize power generation plant ownership through sales to third parties and by encouraging new capacity development and refurbishment of existing assets by independent power developers.

Over the past decade NRG Energy invested in international power generation projects in three distinct markets, Asia Pacific, Europe and Other Americas. During 2002, NRG Energy sold international generation projects with an aggregate total generating capacity of approximately 600 MW. As of December 31, 2002, NRG Energy has investments in power generation projects located in Australia, UK, Germany, South America, India, Taiwan and the Czech Republic with approximately 4630 MW Total generating capacity. NRG Energy currently anticipates that it will divest its remaining international generating projects over time.

Alternative Energy

In addition to its traditional power generation facilities discussed above, NRG Energy provides alternative energy through NEO Corporation (NEO), one of the largest landfill gas generation companies in the United States, and through its NRG Resource Recovery business division, which processes municipal solid waste as fuel used to generate power.

NEO Corporation. NEO is a wholly owned subsidiary of NRG Energy that was formed to develop power generation facilities, ranging in size from 1 to 50 MW, in the United States. NEO owns and operates 31 landfill gas collection systems and has 46 MW of net ownership interests in related electric generation facilities utilizing landfill gas as fuel. NEO also has 42 MW of net ownership interests in 18 hydroelectric facilities and 109 MW of net ownership interests in five distributed generation facilities including 90 MW of gas-fired peaking engines in California (referred to as the Red Bluff and Chowchilla facilities).

Resource Recovery Facilities. NRG Energy's Resource Recovery business is focused on owning and operating alternative fuel/"green power" generation and fuels processing projects. The alternative fuels currently processed and combusted are municipal solid waste (MSW), of which more than 90% is processed into refuse derived fuel (RDF), urban wood waste (pallets, clean construction debris, etc.), forest industry waste wood (bark, sawmill waste, tree trimmings, etc.), agricultural waste (walnut shells, olive pits, peanut shells, etc.), and non-recyclable waste paper and compost. NRG Energy's Resource Recovery business has MSW processing capacity of over 4,000 tons per day and generation capacity of 35 MW, of which its net ownership interest is 26 MW. NRG Energy's Resource Recovery business owns and operates MSW processing and/or generation facilities in Florida, Maine and Minnesota. Resource Recovery also owns and operates NRG Processing Solutions that includes thirteen composting and biomass fuel processing sites in Minnesota of which three sites are permitted to operate as MSW transfer stations.

Thermal

NRG Energy has interests in district heating and cooling systems and steam transmission operations through its subsidiary NRG Thermal LLC. NRG Thermal's thermal and chilled water businesses have a steam and chilled water capacity of approximately of 1,290 megawatt thermal equivalents (MWT).

NRG Thermal LLC owns five district heating and cooling systems in Minneapolis, Minnesota, San Francisco, California, Pittsburgh, Pennsylvania, Harrisburg, Pennsylvania and San Diego, California. These systems provide steam heating to approximately 600 customers and chilled water to 90 customers. In addition, NRG Thermal LLC owns and operates three projects that serve industrial/ government customers with high-pressure steam and hot water and an 88 MW combustion turbine peaking generation facility and an 18 MW coal-fired cogeneration facility in Dover, Delaware.

Power Marketing

NRG Energy's energy marketing subsidiary, NRG Power Marketing Inc. (NRG Power Marketing), began operations in 1998. NRG Power Marketing provides a full range of energy management services for NRG Energy's generation facilities in its Eastern and Central regions. These services are provided under bilateral contracts or agency agreements pursuant to which NRG Power Marketing manages the sales and purchases of energy, capacity and ancillary services, procures the fuel (coal, oil and natural gas) and associated transportation and manages the emission allowance credits for these facilities. NRG Power Marketing has continued to provide these services since NRG Energy lost its investment grade ratings in July 2002, and because of NRG Energy's credit and liquidity limitations, NRG Power Marketing has scaled back its activities. Since July 2002, NRG Power Marketing has focused primarily on procuring fuel for, and marketing the power from, NRG Energy's North American generation facilities in the spot and short-term markets.

Significant Customers

During 2002, NRG Energy (and its subsidiaries) derived approximately 21.1% of its 2002 revenues from majority owned operations from one customer: New York Independent System Operator. During 2001, NRG Energy derived approximately 51.5% of its 2001 revenues from majority owned operations from two customers: New York Independent System Operator (33.9%) and Connecticut Light and Power Company (17.6%). During 2000, NRG Energy derived approximately 41.6% of its 2000 revenues from majority owned operations from two customers: New York Independent System Operator (26.8%) and Connecticut Light and Power Company (14.8%).

Seasonality and Price Volatility

Annual and quarterly operating results can be significantly affected by weather and price volatility. Since NRG Energy's peak demand is in the summer months, temperature variations in summer months are generally more significant than variations during winter months. Significant other events, such as the war in Iraq, the precipitous decline in natural gas inventories and productive capacity and reduced hydroelectric capacity due to dry conditions in the Northwest, have all combined to increase fuel and power price volatility.

Source and Availability of Raw Materials

NRG Energy's raw material requirements primarily include various forms of fossil fuel energy sources, including oil, natural gas and coal. NRG Energy obtains its oil, natural gas and coal from multiple sources and availability is generally not an issue, although localized shortages can and do occur. The prices of oil, natural gas and coal are subject to macro- and micro-economic forces that can change dramatically in both the short term and the long term. For example, the prices of natural gas and oil have been particularly high during the winter of 2002-2003 due to weather volatility and geo-political uncertainty in the Middle East. Oil, natural gas and coal represented approximately 46% of NRG Energy's cost of operations during the year ended December 31, 2002.

Segment Information

For financial information on NRG Energy's operations on a geographical and on a segment basis, see Item 15 — Note 23 to the Consolidated Financial Statements.

Significant Business and Asset Dispositions

Consolidated Business Dispositions

Bulo Bulo — In June 2002, NRG Energy began negotiations to sell its 60% interest in Compania Electrica Central Bulo Bulo S.A. (Bulo Bulo), a Bolivian corporation. During the second quarter of 2002, NRG Energy classified the Bulo Bulo project as held-for-sale and recognized a loss on disposal of approximately \$9.7 million in discontinued operations. The transaction closed in the fourth quarter of 2002.

Crockett Cogeneration Project — In November 2002, NRG Energy sold its 57.7% interest in the Crockett Cogeneration Project, a 240 MW natural gas fueled cogeneration plant near San Francisco, California, to Energy Investment Fund Group, an existing LP, and a unit of GE Capital. NRG Energy recognized a net loss on sale of \$11.5 million (pre-tax) and net proceeds of \$52.1 million which was used to reduce debt.

Csepel and Entrade — In September 2002, NRG Energy announced that it had reached agreements to sell its Csepel power generating facilities (located in Budapest, Hungary) and its interest in Entrade (an electricity trading business headquartered in Prague) to Atel, an independent energy group headquartered in Switzerland. The sales of Csepel and Entrade closed before year-end and resulted in cash proceeds of \$92.6 million and a gain of approximately \$24.0 million.

Pending and Completed Consolidated Business Dispositions

Brazos Valley — In January 2003, the project lenders foreclosed on NRG Energy's 100% ownership interests in NRG Brazos Valley, GP LLC, NRG Brazos Valley LP, LLC NRG Brazos Valley Technology LP, LLC and NRG Brazos Valley Energy, LP, and thereby acquired all of the assets of the Brazos Valley project, a 633 MW gas-fired, combined cycle facility under construction in Fort Bend County, Texas — approximately 30 miles west of Houston, Texas. NRG Energy agreed to the consensual foreclosure of the companies to the project lenders. NRG Energy received no cash proceeds upon completion of the foreclosure. As of December 31, 2002, NRG Energy recorded \$24.0 million for the potential obligation to infuse additional amounts of capital to fund a debt service reserve account and the potential obligation to satisfy a contingent equity agreement.

Killingholme — In January 2003, NRG Energy completed the sale of its interest in the Killingholme project to its lenders. This transfer of NRG Energy's interest in the Killingholme project resulted in a gain on sale in the first quarter of 2003 of approximately \$182.3 million, primarily due to the removal of the related debt on NRG Energy's balance sheet. In 2002, NRG Energy recorded an asset impairment charge of \$477.9 million related to the Killingholme project. Killingholme is reported as a discontinued operation in NRG Energy's December 31, 2002 financial statements.

Hsin Yu — During 2002, NRG Energy committed to sell its ownership interest in Hsin Yu. As a result, Hsin Yu meets the criteria for discontinued operations treatment and accordingly the assets and liabilities and results of operations have been reflected as such in the accompanying financial statements. During the third quarter of 2002, NRG Energy recorded an impairment charge of approximately \$121.9 million for the Hsin Yu project.

Equity Investment Dispositions

During 2002, NRG Energy sold various equity method investments and others have been approved for sale by the NRG Board of Directors but are still owned as of December 31, 2002. In the accompanying financial statements, the operating results of these projects are classified in revenue as equity in earnings from unconsolidated investments. During 2002, NRG Energy recorded write-downs and losses on disposal of \$196.2 million of equity investments.

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Energy Development Limited — In August 2002, NRG Energy completed the sale of its ownership interests in an Australian energy company, Energy Development Limited (EDL). NRG Energy received proceeds of \$78.5 million (AUS), or approximately \$43.9 million (U.S.), in the transaction.

Collinsville Power Station — In August 2002, NRG Energy completed the sale of its 50% interest in the 192 MW Collinsville Power Station in Australia to its partner, a subsidiary of Transfield Services Limited. NRG Energy's proceeds from the sale amounted to \$8.6 million (AUS), or approximately \$4.8 million (USD).

Sabine River — In September 2002, NRG Energy agreed to transfer its indirect 50% interest in SRW Cogeneration LP (SRW) to its partner in SRW, Conoco, Inc. in consideration for Conoco's agreement to terminate or assume all of the obligations of NRG Energy in relation to SRW. SRW owns a cogeneration facility in Orange County, Texas. NRG Energy recorded a charge of approximately \$48.4 million during the quarter ended September 30, 2002 to writeoff the carrying value of its investment due to the pending transfer. The transfer closed on November 5, 2002.

Mt. Poso — In November 2002, NRG Energy completed the sale of its 39.5% indirect partnership interest in the Mt. Poso Cogeneration Company, a California limited partnership (Mt. Poso) for approximately \$10 million to Red Hawk Energy, LLC. Mt. Poso owns a 49.5 MW coal-fired cogeneration power plant and thermally enhanced oil recovery facility located 20 miles north of Bakersfield, California. NRG Energy recorded a charge of approximately \$1.0 million during 2002 to write down the carrying value of its investment.

NEO MESI LLC — On November 26, 2002, NRG Energy, through its indirect wholly-owned subsidiary, NEO MESI LLC, completed the transfer of its 50% interest in MESI Fuel Station No. 1, LLC (MESI) to Power Fuel Partners (PFP) in exchange for the assumption by PFP of all NEO MESI LLC's obligations under the MESI operating agreement, estimated at the time of closing at \$21.6 million, plus a percentage of certain future fuel sales management fees payable to PFP.

Kingston — In December, 2002, NRG Energy completed the sale of its 25% interest in Kingston Cogeneration LP, based near Toronto, Canada to Northland Power Income Fund for approximately \$15 million, resulting in a gain on sale of approximately \$9.9 million.

ECKG — In January 2003, NRG Energy completed the sale of its 44.5% interest in the ECKG power station, the last transaction in connection with NRG Energy's sale of its Csepel power generating facilities, its interest in Entrade, an electricity trading business and ECKG, to Atel, an independent energy group headquartered in Switzerland. The transaction resulted in cash proceeds of \$67.0 million and a net loss of \$2.1 million.

Other Equity Investments

The following investment projects are currently being marketed for sale however, final approval has not been granted by those having such authority as of December 31, 2002. In the accompanying financial statements, the operating results of these projects are classified in revenue as equity in earnings from unconsolidated investments. Write-downs of the carrying amount of the investments and losses on disposal have been classified and reported as a component of write-downs and losses of equity method investments.

Loy Yang — Based on a third party market valuation and bids received in response to marketing the investment for possible sale, NRG Energy recorded a write down of its investment of approximately \$53.6 million in the third quarter of 2002. This write-down reflected management's belief that the decline in fair value of the investment was other than temporary.

During the fourth quarter of 2002, NRG Energy and the other owners of the Loy Yang project engaged in joint marketing of the project for possible sale. In connection with these efforts, a new independent market valuation analysis was completed. Based on the new market valuation and negotiations with a potential purchaser, NRG Energy recorded an additional write-down of its investment in the amount of \$57.8 million in the fourth quarter of 2002. At December 31, 2002 the carrying value of the investment in Loy Yang is approximately \$72.9 million. Accumulated other comprehensive loss at December 31, 2002 includes foreign

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currency translation losses of approximately \$76.7 million related to Loy Yang. The foreign currency translation losses will continue to be included as a component of accumulated other comprehensive loss until NRG Energy commits to a plan to dispose of its investment, as required by EITF Issue No. 01-05. NRG Energy accounts for the results of operations of its investment in Loy Yang as part of its power generation segment within the Asia Pacific region.

Kondapalli — On January 30, 2003, NRG Energy signed a sale agreement with the Genting Group of Malaysia to sell NRG's 30% interest in Lanco Kondapalli Power Pvt Ltd and a 74% interest in Eastern Generation Services (India) Pvt Ltd. Kondapalli is based in Hyderabad, Andhra Pradesh, India, and is the owner of a 368 MW natural gas fired Combined Cycle Gas Turbine. That sale has not yet been completed, although completion is expected before the end of the second quarter of 2003.

Powersmith — During the fourth quarter of 2002, NRG Energy wrote down its investment in Powersmith by approximately \$3.4 million due to impairment of its book value. NRG Energy accounts for the results of operations of these investments as part of its power generation segment within the North America region.

Other — During 2002, NRG Energy wrote down other equity investments in the amount of approximately \$11.3 million due to impairment of their book value. NRG Energy accounted for the results of operations of these investments as part of its alternative energy segment.

Regulation

Federal Energy Regulation

The Federal Energy Regulatory Commission, or FERC, is an independent agency within the Department of Energy that regulates the transmission and wholesale sale of electricity in interstate commerce under the authority of the Federal Power Act. FERC is also responsible for licensing and inspecting private, municipal and state-owned hydroelectric projects. FERC determines whether a public utility qualifies for exempt wholesale generator status under the Public Utility Holding Company Act, which was amended by the Energy Policy Act of 1992.

Federal Power Act. The Federal Power Act gives FERC exclusive rate-making jurisdiction over wholesale sales of electricity and transmission of electricity in interstate commerce. FERC regulates the owners of facilities used for the wholesale sale of electricity and its transmission in interstate commerce as "public utilities" under the Federal Power Act. The Federal Power Act also gives FERC jurisdiction to review certain transactions and numerous other activities of public utilities.

Under the Federal Power Act, an entity that sells electricity in the wholesale market is a public utility, subject to FERC's jurisdiction. Public utilities are required to obtain FERC's acceptance of their rate schedules for wholesale sales of electricity. Because NRG Energy is selling electricity in the wholesale market, NRG Energy is deemed to be a public utility for purposes of the Federal Power Act. In most cases, FERC has granted NRG Energy the authority to sell electricity at market-based rates. In New England, New York, PJM (Pennsylvania, New Jersey, Maryland, Delaware and parts of the Midwest) the Midwest and California, FERC has established Independent System Operators (ISOs) which file market based rate tariffs, subject to FERC Approval. These tariffs/market rules dictate how the wholesale markets are to operate and how entities with market based rates shall be compensated within those markets. The ISOs in these regions also control access to, pricing of and the operation of the transmission grid within their footprint. Outside of ISO controlled regions, NRG Energy is allowed to sell at market based rates as determined by willing buyers and sellers. Access to, pricing for and operation of the transmission grid in such regions is controlled by the local transmission owning utility according to their Pro Forma Open Access Transmission Tariff (OATT) filed with and approved by FERC.

Usually, FERC's orders which grant NRG Energy market-based rate authority reserve the right to revoke or revise NRG Energy's market-based rate authority on a prospective basis if FERC subsequently determines that NRG Energy possesses excessive market power. If NRG Energy lost its market-based rate authority, NRG Energy may be required to obtain FERC's acceptance of a cost-of-service rate schedule and may become subject to the accounting, record-keeping and reporting requirements that are imposed only on

utilities with cost-based rate schedules. It should be noted, however, that NRG Energy does have the right at any time to petition FERC to grant cost of service based rates pursuant to Section 205 of the Federal Power Act.

Public Utility Holding Company Act. The Public Utility Holding Company Act, known as PUHCA, provides that any entity that owns, controls or has the power to vote 10% or more of the outstanding voting securities of an “electric utility company,” or a holding company for an electric utility company, is subject to regulation under the Holding Company Act.

Registered holding companies under the Holding Company Act are required to limit their utility operations to a single, integrated utility system and divest any other operations that are not functionally related to the operation of the utility system. In addition, a company that is a subsidiary of a holding company registered under the Holding Company Act is subject to financial and organizational regulation, including approval by the SEC of certain financings and transactions. Under the Energy Policy Act of 1992, however, FERC can determine that a company engaged exclusively in the business of owning or operating an eligible facility used for the generation of electric energy for sale at wholesale is an “exempt wholesale generator.” Accordingly, it is exempt from the Holding Company Act requirements. In the case of facilities previously operated by regulated utilities, FERC can make an exempt wholesale generator determination only after the state utility commission finds that allowing the facility or facilities to be eligible for exempt wholesale generator status will benefit consumers, is in the public interest, and does not violate state law. Each of NRG Energy’s operating subsidiaries has been designated by FERC as an exempt wholesale generator or is otherwise exempt from PUHCA because it is a Qualifying Facility under the Public Utility Regulatory Policy Act of 1978.

NRG Energy does not expect to engage in any activities that will subject it to regulation under PUHCA. If NRG Energy were to lose its exempt wholesale generator status, it would become subject to regulation under the Holding Company Act. It would be difficult for NRG Energy to comply with the Holding Company Act absent a substantial restructuring.

Environmental and Safety Laws and Regulations

NRG Energy is subject to a broad range of foreign, provincial, federal, state and local environmental and safety laws and regulations applicable to the development, ownership and operation of its United States domestic and international projects. These laws and regulations impose requirements relating to discharges of substances to the air, water and land, the handling, storage and disposal of hazardous substances and wastes and the cleanup of properties affected by pollutants. These laws and regulations generally require that NRG Energy obtain a number of governmental permits and approvals before construction or operation of a power plant commences and after completion, that its facilities operate in compliance with those permits and applicable legal requirements. NRG Energy could also be held responsible under these laws for the cleanup of pollutants released at its facilities or at off-site locations where it has sent wastes.

NRG Energy strives at all times to comply with the terms of all environmental and safety laws, regulations, permits and licenses and NRG Energy believes that all of its operating plants are in material compliance with applicable environmental and safety requirements. NRG Energy also does not expect that its liability under environmental laws for the cleanup of contamination at its plants or off-site waste disposal facilities will have a material effect on the results of its operations. There can be no assurance, however, that in the future it will not incur material environmental liabilities, that it will obtain all necessary permits for its operations or that it will operate in full compliance with environmental and safety laws and regulations at all times. In addition, regulatory compliance for the construction of new facilities is a costly and time-consuming process. Intricate and rapidly changing environmental regulations may require major capital expenditures for permitting and create a risk of expensive delays or material impairment of project value if projects cannot function as planned due to changing regulatory requirements or local opposition. Environmental laws have become increasingly stringent over time, particularly with regard to the regulation of air emissions from NRG Energy’s plants, which requires regular major capital expenditures for power plant upgrades and modifications. Therefore, it is NRG Energy’s policy to integrate the consideration of potential environmental impacts into

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every decision it makes, and by doing so, strive to improve its competitive advantage by meeting or exceeding environmental and safety requirements pertaining to the management and operation of its assets. (See Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Environmental Matters).

Competition

The entire independent power industry in the United States is in turmoil. Many of NRG Energy’s competitors have announced plans to scale back their growth, sell assets, and restructure their finances. The results of the wholesale restructuring of the independent power industry are impossible to predict, but they may include consolidation within the industry, the sale or liquidation of certain competitors, the re-regulation of certain markets, and the long-term reduction in new investment into the industry. Under any scenario, however, NRG Energy anticipates that it will continue to face competition from numerous companies in the industry, some of which may have more extensive operating experience, larger staffs, and greater financial resources than NRG Energy presently possesses.

Many companies in the regulated utility industry, with which the independent power industry is closely linked, are also restructuring or reviewing their strategies. Several of these companies are discontinuing going forward with unregulated investments, seeking to divest of their unregulated subsidiaries or attempting to have their regulated subsidiaries acquire their unregulated subsidiaries. This may lead to an increased competition between the regulated utilities and the unregulated power producers within certain markets. In such instances, NRG Energy may compete with regulated utilities in the development of market designs and rulemaking.

FERC, however, is attempting to level the competitive playing field between regulated utilities and unregulated energy suppliers by providing open, non-discriminatory access to electricity markets and the transmission grid. In April 1996, FERC issued Orders 888 and 889 that required all public utilities to file “open access” transmission tariffs that give wholesale generators, as well as other wholesale sellers and buyers of electricity, access to transmission facilities on a non-discriminatory basis. This led to the formation of the ISOs described above. On December 20, 1999, FERC issued Order 2000, encouraging the creation of Regional Transmission Organizations (RTOs). Finally, on July 31, 2002, FERC issued its Notice of Proposed Rulemaking regarding Standard Market Design. All three orders were intended to eliminate market discrimination by incumbent vertically integrated utilities and to provide for open access to the transmission grid.

The full effect of these changes on NRG Energy is uncertain at this time, because in many parts of the United States, it has not been determined how entities will attempt to comply with FERC’s initiatives. At this time, five ISOs have been approved and are operational; New England (ISO-NE), New York (NYISO), Pennsylvania, NJ, Maryland, DE and parts of the midwest (collectively PJM), Central Midwest (MISO), South Central (SPP) and in California (CA ISO). Two of these ISOs, PJM and MISO, have been found to also qualify as RTOs. Three other entities have also requested that FERC approve their organizations as RTOs; WestConnect (Desert Southwest); RTO West (Pacific Northwest and Rockies) and Setrans (Southeast).

NRG Energy is also impacted by rule/tariff changes that occur in the existing ISOs. On March 1, 2003, ISO-NE implemented its version of Standard Market Design. This change dramatically modifies the New England market structure by incorporating Locational Marginal Pricing (LMP — pricing by location rather than on a New England wide basis). Even though NRG Energy views this change as a significant improvement to the existing market design, NRG Energy still views the market within New England as insufficient to allow for NRG Energy to recover its costs and earn a reasonable return on investment. Consequently, on February 26, 2003, NRG Energy filed and requested a cost of service rate with FERC for most of its Connecticut fleet, requesting a February 27th effective date. NRG Energy remains committed to working with ISO-NE, FERC and other stakeholders to continue to improve the New England market that will hopefully make further reliance on a cost of service rate unnecessary. While NRG Energy has the right to file for such rate treatment, there are no assurances that FERC will grant such rates in the form or amount that NRG Energy petitioned for in its filing.

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On March 25, 2003, the Federal Energy Regulatory Commission (FERC) issued an order (the Order) in response to Devon Power LLC's, Middletown Power LLC's, Montville Power LLC's, and Norwalk Power LLC's (collectively, NRG Subsidiaries) Joint Motion for Emergency Expedited Issuance of Order by March 17, 2003 in Docket No. ER03-563-000 (the Emergency Motion). In the Emergency Motion, the NRG Subsidiaries requested that FERC accept the NRG Subsidiaries' reliability must-run agreements and assure the NRG Subsidiaries' recovery of maintenance costs for their New England generating facilities prior to the peak summer season. FERC accepted the NRG Subsidiaries' filing as to the recovery of spring 2003 maintenance costs, subject to refund. FERC's Order authorizes the ISO New England Inc. to begin collecting these maintenance costs in escrow for the benefit of the NRG Subsidiaries as of February 27, 2003. Several intervenors protested the Emergency Motion. FERC will rule on such protests and the other issues raised in the Emergency Motion in a subsequent order.

In New York, NRG Energy anticipates that the NYISO will implement a demand curve in its capacity market. In PJM, NRG Energy is closely following market power mitigation modifications that may significantly impact the revenues achievable in that market by modifying PJM's price capping mechanisms. The potential modifications are unknown at this time, and it is unclear whether such changes would have a positive or a negative effect on NRG Energy.

In the Midwest, it is anticipated that Exelon and AEP will join PJM and will transition to PJM's market model, although there have been certain regulatory obstacles affecting AEP's ability to join PJM. This will allow NRG Energy to market capacity and energy from its Chicago area assets more effectively. The other Midwest ISO, MISO, continues its market rule development as it moves toward a PJM styled market. MISO and PJM have signed a Memorandum of Understanding that lays out a common market design that both will employ. It is anticipated that PJM and MISO will operate a common market interface that will allow seamless trading between the two regions. MISO presently has operational control over the transmission facilities located within its footprint.

In the Southeast, Entergy and Southern Company continue to support their RTO, Setrans. The future of Setrans is uncertain given the recent loss of the local municipal Santee Cooper.

Finally, in California, the California Independent System Operator (CA ISO) continues to struggle with market design changes intended to prevent a repeat of past market dis-function. It is unlikely that modification initially coined as Market Design 2002 (MDO2), will be implemented any sooner than 2004. Although numerous stakeholder meetings have been held, the final MDO2 design remains unknown at this time. In addition, numerous legislative initiatives in California create uncertainty and risk for NRG Energy. Most significantly, SB39XX mandates that the California Public Utilities Commission (CPUC) exercise jurisdiction over the maintenance of power producers. It is unclear at this time where that process will lead.

Proposals have been introduced in Congress to repeal PURPA and PUHCA, and FERC has publicly indicated support for the PUHCA repeal effort. 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. Deregulation may not only continue to fuel the current trend toward consolidation among domestic utilities, but may also encourage the dis-aggregation of vertically-integrated utilities into separate generation, transmission and distribution businesses.

In addition, the independent system operators who oversee most of the wholesale power markets have in the past imposed, and may in the future continue to impose, price limitations and other mechanisms to address some of the volatility in these markets. For example, the independent system operator for the New York power pool and the California independent system operator have imposed price limitations. These types of price limitations and other mechanisms in New York, California, the New England Power Pool and elsewhere may adversely impact the profitability of NRG Energy's generation facilities that sell energy into the wholesale

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power markets. Finally, the regulatory and legislative changes that have recently been enacted in a number of states in an effort to promote competition are novel and untested in many respects. These new approaches to the sale of electric power have very short operating histories, and it is not yet clear how they will operate in times of market stress or pressure, given the extreme volatility and lack of meaningful long-term price history in many of these markets and the imposition of price limitations by independent system operators.

Employees

At December 31, 2002, NRG Energy had 3,173 employees, approximately 329 of whom are employed directly by NRG Energy and approximately 2,844 of whom are employed by its wholly owned subsidiaries and affiliates. Approximately 1,757 employees are covered by bargaining agreements. NRG Energy has experienced no significant labor stoppages or labor disputes at its facilities.

Cautionary Statement Regarding Forward Looking Information

The information presented in this annual report includes forward-looking statements in addition to historical information. These statements involve known and unknown risks and relate to future events, or projected business results. In some cases forward-looking statements may be identified by their use of such words as "may," "expects," "plans," "anticipates," "contemplates," "believes," and similar terms. Forward-looking statements are only predictions or expectations and actual results may differ materially from the expectations expressed in any forward-looking statement. While NRG Energy believes that the expectations expressed in such forward-looking statements are reasonable, NRG Energy can give no assurances that these expectations will prove to have been correct. In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

- The possibility of a bankruptcy filing in the near future, either by NRG Energy or one or more of its subsidiaries, the entry of an order for relief by the Minnesota Bankruptcy Court in respect of the pending involuntary Chapter 11 petition in that court, or the filing of an involuntary bankruptcy petition in another court by a requisite number of creditors of NRG Energy or a subsidiary, as the case may be;
- NRG Energy's ability or the ability of any of its subsidiaries to reach agreements with its lenders, creditors and other stakeholders regarding a comprehensive restructuring of NRG Energy;
- Cost and other effects of legal and administrative proceedings, settlements, investigations and claims;
- NRG Energy's ability to sell assets in the amounts and on the timetable assumed;
- Trade, monetary, fiscal, taxation, and environmental policies of governments, agencies and similar organizations in geographic areas where NRG Energy has a financial interest;
- General economic conditions including inflation rates and monetary or currency exchange rate fluctuations;
- The effect on the U.S. economy as a consequence of an invasion of Iraq and other potential actions relating to the U.S. government's efforts to suppress terrorism;
- Customer business conditions including demand for their products or services and supply of labor and materials used in creating their products and services;
- Financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission and similar entities with regulatory oversight;
- Factors affecting power generation operations such as unusual weather conditions; catastrophic weather-related or other damage to facilities; unscheduled generation outages, maintenance or repairs; unanticipated changes to fossil fuel, or gas supply costs or availability due to higher demand, shortages,

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- transportation problems or other developments; environmental incidents; or electric transmission or gas pipeline system constraints;
- Employee workforce factors including the hiring and retention of key executives, collective bargaining agreements with union employees, or work stoppages;
 - Volatility of energy prices in a deregulated market environment;
 - Increased competition in the power generation industry;
 - Technological developments that result in competitive disadvantages and create the potential for impairment of existing assets;
 - Factors associated with various investments including conditions of final legal closing, partnership actions, competition, operating risks, dependence on certain suppliers and customers and domestic and foreign environmental and energy regulations;
 - Limitations on NRG Energy's ability to control projects in which NRG Energy has less than 100% interest;
 - Limited operating history at recently acquired or constructed projects provide only a limited basis for management to project the results of future operations;
 - Risks associated with timely completion of projects under construction, including obtaining competitive commercial agreements, obtaining regulatory and permitting approvals, local opposition, construction delays and other factors beyond NRG Energy's control;
 - Failure to timely satisfy the closing conditions contained in the definitive agreements for the sale of projects subject to definitive agreements but not yet closed, many of which are beyond NRG Energy's control;
 - Factors challenging the successful integration of projects not previously owned or operated by NRG Energy, including the ability to obtain operating synergies;
 - Factors associated with operating in foreign countries including: delays in permitting and licensing, construction delays and interruption of business, political instability, taxing regimes, risk of war, expropriation, nationalization, renegotiation, or nullification of existing contracts, changes in law, and the ability to convert foreign currency into United States dollars;
 - Changes in government regulation or the implementation of new government regulations, including pending changes within or outside of California as a result of the California energy crisis, or the outcome of litigation pending in California and other western states, which could adversely affect the continued deregulation of the electric industry;
 - Changes in market design or implementation of rules that affect NRG Energy's ability to transmit or sell power in any market, including, without limitation, the failure of FERC to grant NRG Energy cost of service based rates on certain Connecticut generation facilities in the form and amount petitioned for in the Section 205 filing pursuant to the Federal Power Act.
 - Other business or investment considerations that may be disclosed from time to time in NRG Energy's Securities and Exchange Commission filings or in other publicly disseminated written documents, including NRG Energy's Registration Statement No. 333-62958, as amended, and all supplements therein.

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

Item 2 — Properties

Listed below are descriptions of NRG Energy's interests in facilities, operations and/or projects owned as of December 31, 2002.

Independent Power Production and Cogeneration Facilities

Name and Location of Facility	Purchaser/Power Market	Net Owned Capacity (MW)	NRG's Percentage Ownership Interest	Fuel Type
Eastern:				
Oswego, New York	Niagara Mohawk/NYISO	1,700	100%	Oil/Gas
Huntley, New York	Niagara Mohawk/NYISO	760	100%	Coal
Dunkirk, New York	Niagara Mohawk/NYISO	600	100%	Coal
Arthur Kill, New York	NYISO	842	100%	Gas/Oil
Astoria Gas Turbines, New York	NYISO	614	100%	Gas/Oil
Ilion, New York	NYISO	57	100%	Gas/Oil
Somerset, Massachusetts	Eastern Utilities Associates	160	100%	Coal/Oil/Jet
Middletown, Connecticut	ISO-NE	856	100%	Oil/Gas/Jet
Montville, Connecticut	ISO-NE	498	100%	Oil/Gas
Devon, Connecticut	ISO-NE	401	100%	Gas/Oil/Jet
Norwalk Harbor, Connecticut	ISO-NE	353	100%	Oil
Connecticut Jet Power, Connecticut	ISO-NE	127	100%	Jet
Other — 6 projects	Various	68	Various	Various
Indian River, Delaware	Delmarva/PJM	784	100%	Coal/Oil
Dover, Delaware	PJM	106	100%	Gas/Coal
Vienna, Maryland	Delmarva/PJM	170	100%	Oil
Conemaugh, Pennsylvania	PJM	64	3.72%	Coal/Oil
Keystone, Pennsylvania	PJM	63	3.70%	Coal/Oil
Paxton Creek Cogeneration, Pennsylvania	Virginia Electric & Power	12	100%	Gas
Commonwealth Atlantic	PJM	188	50%	Gas/Oil
James River	PJM	55	50%	Coal
Central Region:				
Big Cajun II, Louisiana	Cooperatives/SERC-Entergy	1,489	86.04%	Coal
Big Cajun I, Louisiana	Cooperatives/SERC-Entergy	458	100%	Gas
Bayou Cove, Louisiana	SERC-Entergy	320	100%	Gas
Sterlington, Louisiana	Louisiana Generating	202	100%	Gas
Batesville, Mississippi	SERC-TVA	837	100%	Gas
McClain, Oklahoma	SPP-Southern	400	77%	Gas
Mustang, Texas	Golden Spread Electric Coop	122	25%	Gas
Other — 3 projects	Various	45	Various	Various
Kendall, Illinois	MAIN	1,168	100%	Gas
Rockford I, Illinois	MAIN	342	100%	Gas
Rockford II, Illinois	MAIN	171	100%	Gas
Rocky Road Power, Illinois	MAIN	175	50%	Gas
Audrain, Missouri	MAIN/SERC-Entergy	640	100%	Gas
Other — 2 projects	Various	42	Various	Various
West Coast Region:				
El Segundo Power, California	California DWR	335	50%	Gas
Encina, California	California DWR	483	50%	Gas/Oil
Long Beach Generating, California	California DWR	265	50%	Gas
San Diego Combustion Turbines, California	Cal ISO	93	50%	Gas/Oil
Saguaro Power Co., Nevada	Nevada Power	50	50%	Gas/Oil
Other North America:				
NEO Corporation, Various	Various	197	71.49%	Various
Energy Investors Funds, Various	Various	11	0.73%	Various

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Name and Location of Facility	Purchaser/Power Market	Net Owned Capacity (MW)	NRG's Percentage Ownership Interest	Fuel Type
International Projects:				
<i>Asia-Pacific:</i>				
Lanco Kondapalli Power, India(3)	APTRANSCO	107	30%	Gas/Oil
Hsin Yu, Taiwan(3)	Industrials	102	60%	Gas
<i>Australia:</i>				
Flinders, South Australia	South Australian Pool	760	100%	Coal
Gladstone Power Station, Queensland	Enertrade/Boyne Smelters	630	37.50%	Coal
Loy Yang Power A, Victoria	Victorian Pool	507	25.37%	Coal
<i>Europe:</i>				
Killingholme Power A, UK(3)	UK Electricity Grid	680	100%	Gas
Enfield Energy Centre, UK	UK Electricity Grid	99	25%	Gas/Oil
Schkopau Power Station, Germany	VEAG/Industrials	400	41.67%	Coal
MIBRAG mbH, Germany	ENVIA/MIBRAG Mines	119	50%	Coal
ECK Generating, Czech Republic(3)	STE/Industrials	166	44.50%	Coal/Gas/Oil
CEEP Fund, Poland	Industrials	4.5	7.56%	Gas/Coal
<i>Other Americas:</i>				
TermoRio, Brazil	Petrobras	520	50%	Gas/Oil
Itiquira Energetica, Brazil	COPEL/Tradener	154	93.3%	Hydro
COBEE, Bolivia	Electropaz/ELF	219	100%	Hydro/Gas
Energia Pacasmayo, Peru	Electroperu/Peruvian Grid	66	100%	Hydro/Oil
Cahua, Peru	Quimpac/Industrials	45	100%	Hydro
Latin Power, Various	Various	52	6.75%	Various

Thermal Energy Production and Transmission Facilities and Resource Recovery Facilities

Name and Location of Facility	Date of Acquisition	Net Owned Capacity(1)	NRG's Percentage Ownership Interest	Thermal Energy Purchaser/MSW Supplier
NRG Energy Center Minneapolis, Minnesota	1993	Steam: 1,403 mmBtu/hr. (411 MWt)	100%	Approximately 100 steam customers and 40 chilled water customers
		Chilled water: 42,450 tons (149 MWt)		
NRG Energy Center San Francisco, California	1999	Steam: 490 mmBtu/hr. (144 MWt)	100%	Approximately 185 steam customers
NRG Energy Center Harrisburg, Pennsylvania	2000	Steam: 490 mmBtu/hr. (144 MWt)	100%	Approximately 295 steam customers and 2 chilled water customers
		Chilled water: 1,800 tons (8 MWt)		
NRG Energy Center Pittsburgh, Pennsylvania	1999	Steam: 260 mmBtu/hr. (76 MWt)	100%	Approximately 30 steam and 30 chilled water customers
		Chilled water: 12,580 tons (44 MWt)		
NRG Energy Center San Diego, California	1997	Chilled water: 8,000 tons (28 MWt)	100%	Approximately 20 chilled water customers
NRG Energy Center Rock-Tenn, Minnesota	1992	Steam: 430 mmBtu/hr. (126 MWt)	100%	Rock-Tenn Company
Camas Power Boiler, Washington	1997	Steam: 200 mmBtu/hr. (59 MWt)	100%	Georgia-Pacific Corp.

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Name and Location of Facility	Date of Acquisition	Net Owned Capacity(1)	NRG's Percentage Ownership Interest	Thermal Energy Purchaser/MSW Supplier
NRG Energy Center Dover, Delaware	2000	Steam: 190 mmBtu/hr. (56 MWt)	100%	Kraft Foods Inc.
NRG Energy Center Washco, Minnesota	1992	Steam: 160 mmBtu/hr. (47 MWt)	100%	Andersen Corporation, Minnesota Correctional Facility
Energy Center Kladno, Czech Republic(2)(3)	1994	227 mmBtu/hr. (67 MWt)	44.40%	City of Kladno
Resource Recovery Facilities				
Newport, Minnesota	1993	MSW: 1,500 tons/day	100%	Ramsey and Washington Counties
Elk River, Minnesota	2001	MSW: 1,275 tons/day	85%	Anoka, Hennepin, and Sherburne Counties; Tri-County Solid Waste Management Commission
Penobscot Energy Recovery, Maine	1997	MSW: 590 tons/day	50%	Bangor Hydroelectric Company

- (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) Kladno also is included in the Independent Power Production and Cogeneration Facilities table on the preceding page, under the name ECK Generating.
- (3) Held for sale. See "Significant Business and Asset Dispositions" under Item 1.

Other Properties

In addition to the above, NRG Energy leases its corporate offices at 901 Marquette, Suite 2300, Minneapolis, Minnesota 55402 and various other office spaces. NRG Energy also owns interests in other construction projects in various states of completion, the development of which has been terminated due to NRG Energy's liquidity situation, as well as other properties not used for operational purposes.

Item 3 — Legal Proceedings

Through March 2003, NRG Energy was involved in the following material legal proceedings. NRG Energy is vigorously defending itself in each of these matters.

California Wholesale Electricity Litigation and Related Investigations

People of the State of California ex. rel. Bill Lockyer, Attorney General, v. Dynegy, Inc. et al., United States District Court, Northern District of California, Case No. C-02-O1854 VRW; United States Court of Appeals for the Ninth Circuit, Case No. 02-16619.

This action was filed in state court on March 11, 2002. It alleges that the defendants violated California Business & Professions Code § 17200 by selling ancillary services to the California ISO, and subsequently selling the same capacity into the spot market. The Attorney General seeks injunctive relief as well as restitution, disgorgement and civil penalties.

On April 17, 2002, the defendants removed the case to the United States District Court in San Francisco. Thereafter, the case was transferred to Judge Vaughn Walker, who is also presiding over various other “ancillary services” cases brought by the California Attorney General against other participants in the California market, as well as other lawsuits brought by the Attorney General against these other market participants. NRG Energy has tolling agreements in place with the Attorney General with respect to such other proposed claims against it.

The Attorney General filed motions to remand, which the defendants opposed in July of 2002. In an Order filed in early September 2002, Judge Walker denied the remand motions. The Attorney General has appealed that decision to the United States Court of Appeal for the Ninth Circuit, and the appeal remains pending. The Attorney General also sought a stay of proceedings in the district court pending the appeal, and this request was also denied. A “Notice of Bankruptcy Filing” respecting NRG Energy was filed in the Ninth Circuit and in the District Court in mid-December 2002. The Attorney General filed a paper asserting that the “police power” exception to the automatic stay is applicable here. Judge Walker agreed with the Attorney General on this issue. In a lengthy opinion filed March 25, 2003, Judge Walker dismissed the Attorney General’s action against NRG and Dynegy with prejudice, finding it was barred by the filed rate doctrine and preempted by federal law. The Attorney General has announced it will appeal the dismissal. NRG Energy is unable at this time to accurately estimate the damages sought by the Attorney General against NRG Energy and its affiliates, or predict the outcome of the case.

A “Notice of Bankruptcy Filing” respecting NRG Energy was filed in the Ninth Circuit and in the District Court in mid-December, 2002. The Attorney General filed a paper asserting that the “police power” exception to the automatic stay is applicable here.

Public Utility District of Snohomish County v. Dynegy Power Marketing, Inc et al., Case No. 02-CV-1993 RHW, United States District Court, Southern District of California (part of MDL 1405).

This action was filed against Dynegy, NRG Energy, Xcel Energy and several other market participants in the United States District Court in Los Angeles on July 15, 2002. The Complaint alleges violations of the California Business & Professions Code § 16720 (the Cartwright Act) and Business & Professions Code § 17200. The basic claims are price fixing and restriction of supply, and other market “gaming” activities.

The action was transferred from Los Angeles to the United States District Court in San Diego and was made a part of the Multi-District Litigation proceeding described below. All defendants filed motions to dismiss and to strike in the fall of 2002. In an Order dated January 6, 2003, the Honorable Robert Whaley, a federal judge from Spokane sitting in the United States District Court in San Diego, pursuant to the Order of the MDL Panel, granted the motions to dismiss on the grounds of federal preemption and filed-rate doctrine. The plaintiffs have filed a notice of appeal.

In re: Wholesale Electricity Antitrust Litigation, MDL 1405, United States District Court, Southern District of California, pending before Honorable Robert H. Whaley. The cases included in this proceeding are as follows:

1. *Pamela R Gordon, on Behalf of Herself and All Others Similarly Situated v Reliant Energy, Inc. et al.*, Case No. 758487, Superior Court of the State of California, County of San Diego (filed on November 27, 2000).

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2. *Ruth Hendricks, On Behalf of Herself and All Others Similarly Situated and On Behalf of the General Public v. Dynegy Power Marketing, Inc. et al.*, Case No. 758565, Superior Court of the State of California, County of San Diego (filed November 29,2000).

3. *The People of the State of California, by and through San Francisco City Attorney Louise H. Renne v. Dynegy Power Marketing, Inc. et al.*, Case No. 318189, Superior Court of California, San Francisco County (filed January 18, 2001).

4. *Pier 23 Restaurant, A California Partnership, On Behalf of Itself and All Others Similarly Situated v. PG&E Energy Trading et al.*, Case No. 318343, Superior Court of California, San Francisco County (filed January 24,2001).

5. *Sweetwater Authority, et al. v. Dynegy Inc. et al.*, Case No. 760743, Superior Court of California, San Diego County (filed January 16, 2001).

6. *Cruz M Bustamante, individually, and Barbara Matthews, individually, and on behalf of the general public and as a representative taxpayer suit, v. Dynegy Inc. et al., inclusive.* Case No. BC249705, Superior Court of California, Los Angeles County (filed May 2, 2001).

These cases were all filed in late 2000 and 2001 in various state courts throughout California. They allege unfair competition, market manipulation, and price fixing. All the cases were removed to the appropriate United States District Courts, and were thereafter made the subject of a petition to the Multi-District Litigation Panel (Case No. MDL 1405). The cases were ultimately assigned to Judge Whaley. Judge Whaley entered an order in 2001 remanding the cases to state court, and thereafter the cases were coordinated pursuant to state court coordination proceedings before a single judge in San Diego Superior Court. The defendants filed motions to dismiss and to strike under the filed-rate and federal preemption theories, and the plaintiffs challenged the district court's jurisdiction and sought to have the cases remanded to state court. In December 2002, Judge Whaley issued an opinion finding that federal jurisdiction was absent in the district court, and remanding the cases to state court. Duke and Reliant have filed a notice of appeal with the Ninth Circuit, and also sought a stay of the remand pending appeal. The stay request was denied by Judge Whaley. On February 20, 2003, however, the Ninth Circuit stayed the remand order and accepted jurisdiction to hear the appeal of Reliant and Duke on the remand order. The Company anticipates that filed-rate/federal preemption pleading challenges will once again be filed once the remand appeal is decided. A "Notice of Bankruptcy Filing" respecting NRG Energy has also been filed in this action, providing notice of the involuntary petition.

"Northern California" cases against various market participants, not including NRG Energy (part of MDL 1405). These include the *Millar, Pastorino, RDJ Farms, Century Theatres, El Super Burrito, Leo's, J&M Karsant*, and the *Bronco Don* cases. NRG Energy, Inc. was not named in any of these cases, but in virtually all of them, either West Coast Power or one or more of the operating LLC's with which the Company is indirectly affiliated is named as a defendant. These cases all allege violation of Business & Professions Code § 17200, and are similar to the various allegations made by the Attorney General. Dynegy is named as a defendant in all these actions, and Dynegy's outside counsel is representing both Dynegy and the West Coast Power entities in each of these cases.

"Pacific Northwest" cases: *Symonds v. Dynegy Power Marketing et al.*, United States District Court, Western District of Washington, Case No. CV02-2552; *Lodewick v. Dynegy Power Marketing et al.*, Oregon Circuit Court Case No. 0212-12771. These cases were just recently asserted and contain similar claims to those found in the California cases described above. There has been little activity in either case.

Bustamante v. McGraw-Hill Companies Inc., et al., No. BC 285598, California Superior Court, Los Angeles County

This putative class action lawsuit was filed on November 20, 2002. In addition to naming WCP-related entities as defendants, numerous industry participants are named in this lawsuit that are unrelated to WCP or NRG Energy. The Complaint generally alleges that the defendants attempted to manipulate gas indexes by reporting false and fraudulent trades. Named defendants in the suit are the LLCs established by WCP for

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each of its four plants: El Segundo Power, LLC; Long Beach Generation, LLC; Cabrillo Power I LLC; and Cabrillo Power II LLC. NRG Energy is not named as a defendant. The complaint seeks restitution and disgorgement of “ill-gotten gains,” civil fines, compensatory and punitive damages, attorneys’ fees, and declaratory and injunctive relief.

Dynegy has agreed with NRG Energy that it will indemnify and hold harmless the named defendants in the Bustamante lawsuit, as well as NRG Energy, from any civil fines, compensatory damages, punitive damages, costs, and fees that may be entered pursuant to either a final judgment or a settlement of claims. Dynegy has also agreed that it will pay all costs and attorneys’ fees associated with the defense of the named defendants in the Bustamante lawsuit, as well as any defense costs for NRG Energy.

Investigations

FERC — California Market Manipulation

The Federal Energy Regulatory Commission has an ongoing “Investigation of Potential Manipulation of Electric and Natural Gas Prices,” which involves hundreds of parties and substantial discovery. In June, 2001, FERC initiated proceedings related to California’s demand for \$8.9 billion in refunds from power sellers who allegedly inflated wholesale prices during the energy crisis. Hearings have been conducted before an administrative law judge who issued an opinion in late 2002. The administrative law judge stated that after assessing a refund of \$1.8 billion for “unjust and unreasonable” power prices between October 2, 2000 and June 20, 2001, power suppliers were owed \$1.2 billion because the State was holding funds owed to suppliers.

In August, 2002, the 9th U.S. Circuit Court of Appeals granted a request by the Electricity Oversight Board, the California Public Utilities Commission, and others, to seek out and introduce to FERC additional evidence of market manipulation by wholesale sellers. This decision resulted in FERC ordering an additional 100 days of discovery in the refund proceeding, and also allowing the relevant time period for potential refund liability to extend back an additional nine months, to January 1, 2000.

On December 12, 2002, FERC Administrative Law Judge Birchman issued a Certification of Proposed Findings on California Refund Liability in Docket No. EL00-95-045 *et al.*, which determined the method for the mitigated energy market clearing price during each hour of the refund period. On March 26, 2003, FERC issued an Order on Proposed Findings on Refund Liability in Docket No. EL00-95-045 (Refund Order), adopting, in part, and modifying, in part, the Proposed Findings issued by Judge Birchman on December 12, 2002. In the Refund Order, FERC adopted the refund methodology in the Staff Final Report on Price Manipulation in Western Markets issued contemporaneously with the Refund Order in Docket No. PA02-2-000. This refund calculation methodology makes certain changes to Judge Birchman’s methodology, because of FERC Staff’s findings of manipulation in gas index prices. This could materially increase the estimated refund liability. The Refund Order also directs generators that want to recover any fuel costs above the mitigated market clearing price during the refund period to submit cost information justifying such recovery within forty (40) days of the issuance of the Refund Order. FERC announced in the Refund Order that it expects that refunds will be paid by suppliers by the end of summer 2003.

California Attorney General

In addition to the litigation it has undertaken described above, the California Attorney General has undertaken an investigation entitled *In the Matter of the Investigation of Possibly Unlawful, Unfair, or Anti-Competitive Behavior Affecting Electricity Prices in California*. In this connection, the Attorney General has issued subpoenas to Dynegy, served interrogatories on Dynegy and NRG Energy, and informally requested documents and interviews from Dynegy and Dynegy employees as well as NRG Energy and NRG Energy employees. NRG Energy responded to the interrogatories last summer, with the final set of responses being served on September 3, 2002. NRG Energy has also produced a large volume of documentation relating to the West Coast Power plants. In addition, three NRG Energy employees in California have sat for informal interviews with representatives of the Attorney General’s office. Dynegy employees have also been inter-

viewed. The Attorney General's office has requested an additional interview with NRG Energy's plant manager of El Segundo.

Although any evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss in the above-referenced private actions and various investigations cannot be made at this time, NRG Energy notes that the Gordon complaint alleges that the defendants, collectively, overcharged California ratepayers during 2000 by \$4.0 billion. NRG Energy knows of no evidence implicating NRG Energy in plaintiffs' allegations of collusion. NRG Energy cannot predict the outcome of these cases and investigations at this time.

The Minnesota Involuntary Bankruptcy Case

On November 22, 2002, a petition commencing an involuntary bankruptcy proceeding pursuant to Chapter 11 of the Bankruptcy Code was filed by five of NRG Energy's former officers, Brian Bird, Leonard Bluhm, Craig Mataczynski, John Noer and David Peterson in the United States Bankruptcy Court for the District of Minnesota. Roy Hewitt and James Bender subsequently joined in the petition. NRG Energy has subsequently filed an answer and a motion to dismiss the Involuntary Case. The court will consider the motion to dismiss. In their petition filed with the Minnesota Bankruptcy Court, the petitioners sought recovery of severance and other benefits in an aggregate amount of \$27.7 million.

Since the commencement of the Minnesota involuntary case, NRG Energy and its counsel have been involved in extensive negotiations with the petitioners and their counsel. As a result of these negotiations, NRG Energy and the petitioners reached an agreement and compromise regarding their respective claims against each other. On February 17, 2003, the Settlement Agreement was executed by the Petitioners and NRG Energy, pursuant to which NRG Energy agreed to pay the Petitioners an aggregate settlement in the amount of \$12.2 million.

On February 28, 2003, Stone & Webster, Inc. and Shaw Constructors, Inc. filed a Joinder in Involuntary Petition alleging that they hold unsecured, non-contingent claims against NRG Energy, in a joint amount of \$100 million. On March 20, 2003, Connecticut Light & Power Company filed an opposition to the NRG Energy motion to dismiss the Involuntary Case.

The Minnesota Bankruptcy Court has discretion in reviewing and ruling on the motion to dismiss and the review and approval of the settlement agreement. There is a risk that the Minnesota Bankruptcy Court may, among other things, reject the settlement agreement or enter an order for relief under Chapter 11 of the Bankruptcy Code, thus commencing a Chapter 11 case for NRG Energy.

Fortistar Capital Inc. v. NRG Energy, Inc., Hennepin County District Court.

On July 12, 1999, Fortistar Capital Inc. sued NRG Energy in Minnesota state court. The complaint sought injunctive relief and damages of over \$50 million resulting from NRG Energy's alleged breach of a letter agreement with Fortistar relating to the Oswego power plant. NRG Energy asserted counterclaims. After considerable litigation, the parties entered into a conditional, confidential settlement agreement, which was subject to necessary board and lender approvals. NRG Energy was unable to obtain necessary approvals. Fortistar has moved the court to enforce the settlement, seeking damages in excess of \$35 million plus interest and attorneys' fees. NRG Energy is opposing Fortistar's motion on the grounds that conditions to contract performance have not been satisfied. No decision has been made on the pending motion, and NRG Energy cannot predict the outcome of this dispute.

Fortistar RICO Claims/ Indemnity Requests

On Feb. 26, 2003, Fortistar Capital, Inc. and Fortistar Methane, LLC filed a lawsuit in the Federal District Court for the Northern District of New York against Xcel Energy and five present or former NRG Energy or NEO officers and employees. NRG Energy is a wholly owned subsidiary of Xcel Energy, and NEO is a wholly owned subsidiary of NRG Energy. In the lawsuit, Fortistar claims that the defendants violated the

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Racketeer Influenced and Corrupt Organizations Act (“RICO”) and committed fraud by engaging in a pattern of negotiating and executing agreements “they intended not to comply with” and “made false statements later to conceal their fraudulent promises.” The plaintiffs allege damages of some \$350 million and also assert entitlement to a trebling of these damages under the provisions of the RICO Act. The present and former NRG Energy and NEO officers and employees have requested indemnity from NRG Energy, which requests NRG Energy is now examining. NRG Energy cannot at this time estimate the likelihood of an unfavorable outcome to the defendants in this lawsuit.

NEO Corporation, a Minnesota corporation on behalf of itself and on behalf of Minnesota Methane, LLC, a Delaware limited liability company v. Fortistar Methane, LLC, a Delaware limited liability company, Hennepin County District Court

NEO Corporation, a wholly owned subsidiary of NRG Energy, brought this lawsuit in January of 2001. NEO has asserted claims for breach of contract, breach of the covenant of good faith and fair dealing, fraudulent misrepresentations and omissions, defamation, business disparagement and derivative claims. Fortistar Methane, LLC denied NEO’s claims and counterclaimed alleging breach of contract, fraud, negligent misrepresentation and breach of warranty. NEO has denied Fortistar Methane’s claims and intends to pursue its claims. Discovery has not been conducted. The parties entered into a conditional, confidential settlement of this matter and the Fortistar Capital action, described above. The agreement, however, was subject to necessary board and lender approvals. NEO was unable to obtain necessary approvals. Fortistar Methane has moved to enforce the settlement, seeking damages against NRG Energy in excess of \$35 million plus interest and attorneys’ fees. NRG Energy and NEO are opposing Fortistar’s motion on the grounds that conditions to contract performance were not met. No decision has been rendered on the pending motion. NRG Energy cannot predict the likelihood of an unfavorable outcome.

Connecticut Light & Power Company v. NRG Power Marketing Inc., Docket No. 3:01-CV-2373 (A WT), pending in the United States District Court, District of Connecticut

This matter involves a claim by Connecticut Light & Power Company for recovery of amounts it claims is owing for congestion charges under the terms of a Standard Offer Services contract between the parties, dated October 29, 1999. CL&P has served and filed its motion for summary judgment to which NRG Power Marketing filed a response on March 21, 2003. CL&P has offset approximately \$30 million from amounts owed to NRG Power Marketing claiming that it has the right to offset those amounts under the contract. NRG Power Marketing has counterclaimed seeking to recover those amounts, arguing among other things that CL&P has no rights under the contract to offset them. NRG Power Marketing cannot estimate at this time the likelihood of an unfavorable outcome in this matter, or the overall exposure for congestion charges for the full term of the contract.

The State of New York and Erin M. Crotty, as Commissioner of the New York State Department of Environmental Conservation v. Niagara Mohawk Power Corporation et al., United States District Court for the Western District of New York, Civil Action No. 02-CV-002S

In January, 2002, NRG Energy and Niagara Mohawk Power Corporation (“NiMo”) were sued by the New York Department of Environmental Conservation in federal court in New York. The complaint asserts that projects undertaken at NRG Energy’s Huntley and Dunkirk plants by NiMo, the former owner of the facilities, should have been permitted pursuant to the Clean Air Act and that the failure to do so violated federal and state laws. In July, 2002, NRG Energy filed a motion to dismiss. The motion is still pending before the judge and there has been no further action taken in connection with the case. On March 27, 2003 the court dismissed the complaint against NRG Energy without prejudice. It is possible the state will appeal this dismissal to the Second Circuit Court of Appeals or re-file a case against NRG Energy. If the case ultimately is litigated to a judgment and there is an unfavorable outcome that could not be addressed through use of compliant fuels and/or a plantwide applicability limit, NRG Energy has estimated that the total investment that would be required to install pollution control devices could be as high as \$300 million over a ten to twelve-year period, and NRG Energy may be responsible for payment of certain penalties and fines.

Niagara Mohawk Power Corporation v. NRG Energy, Inc., Huntley Power, LLC, and Dunkirk Power, LLC, Supreme Court, State of New York, County of Onondaga, Case No. 2001-4372

NRG Energy has asserted that NiMo is obligated to indemnify it for any related compliance costs associated with resolution of the enforcement action. NiMo has filed suit in state court in New York seeking a declaratory judgment with respect to its obligations to indemnify NRG Energy under the asset sales agreement.

Huntley Power LLC, Dunkirk Power LLC and Oswego Harbor Power LLC

All three of these facilities have been issued Notices of Violation with respect to opacity exceedances. NRG Energy has been engaged in consent order negotiations with the New York State Department of Environmental Conservation relative to opacity issues affecting all three facilities periodically since 1999. One proposed consent order was forwarded by DEC under cover of a letter dated January 22, 2002, which makes reference to 7,890 violations at the three facilities and contains a proposed payable penalty for such violations of \$900,000. On February 5, 2003, DEC sent to us a proposed Schedule of Compliance and asserted that it is to be used in conjunction with newly-drafted consent orders. NRG Energy has not yet received the consent orders although NRG Energy has been told by DEC that DEC is now seeking a penalty in excess of that cited in its January 22, 2002 letter. NRG Energy expects to continue negotiations with DEC regarding the proposed consent orders, including the Schedule of Compliance and the penalty amount. NRG Energy cannot predict whether those discussions with the DEC will result in a settlement and, if they do, what sanctions will be imposed. In the event that the consent order negotiations are unsuccessful, NRG Energy does not know what relief DEC will seek through an enforcement action and what the result of such action will be.

Niagara Mohawk Power Corporation v. Dunkirk Power LLC, et al., Supreme Court, Erie County, Index No. 1-2000-8681

On October 2, 2000, plaintiff Niagara Mohawk Power Corporation commenced this action against NRG Energy to recover damages, plus late fees, less payments received, through the date of judgment, as well as any additional amounts due and owing for electric service provided to the Dunkirk Plant after September 18, 2000. Plaintiff Niagara Mohawk claims that NRG Energy has failed to pay retail tariff amounts for utility services commencing on or about June 11, 1999 and continuing to September 18, 2000 and thereafter. Plaintiff has alleged breach of contract, suit on account, violation of statutory duty, and unjust enrichment claims. On or about October 23, 2000, NRG Energy served an answer denying liability and asserting affirmative defenses.

After proceeding through discovery, and prior to trial, the parties and the court entered into a stipulation and order filed August 9, 2002 consolidating this action with two other actions against the Company's Huntley and Oswego subsidiaries, both of which cases assert the same claims and legal theories for failure to pay retail tariffs for utility services.

On October 8, 2002, a Stipulation and Order was filed in the Erie County Clerk's Office staying this action pending submission of some or all of the disputes in the action to the FERC. NRG Energy cannot make an evaluation of the likelihood of an unfavorable outcome. The cumulative potential loss could exceed \$35 million.

Pointe Coupee Parish Police Jury and Louisiana Generating, LLC v. United States Environmental Protection Agency and Christine Todd Whitman, Administrator, Adversary Proceeding No. 02-61021 on the docket of the United States Court of Appeals for the Fifth Circuit

On December 2, 2002, a Petition for Review was filed to appeal the United States Environmental Protection Agency's approval of the Louisiana Department of Environmental Quality's ("DEQ") revisions to the Baton Rouge State Implementation Plan ("SIP"). Pointe Coupee and NRG Energy's subsidiary, Louisiana Generating, object to the approval of SIP Section 4.2.1. *Permitting NO_x Sources* that purports to require DEQ to obtain offsets of major increases in emissions of nitrogen oxides (NO_x) associated with major modifications of existing facilities or construction of new facilities both in the Baton Rouge Ozone Nonattainment Area and in four adjoining attainment parishes referred to as the Region of Influence,

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including Pointe Coupee Parish. The plaintiffs' challenge is based on DEQ's failure to comply with Administrative Procedures Act requirements related to rulemaking and EPA's regulations which prohibit EPA from approving a SIP not prepared in accordance with state law. The court granted a sixty (60) day stay of this proceeding on February 25, 2003 to allow the parties to conduct settlement discussions. At this time, NRG Energy is unable to predict the eventual outcome of this matter or the potential loss contingencies, if any, to which the Company may be subject.

In the Matter of Louisiana Generating, LLC, Adversary Proceeding No. 2002-1095 1-EQ on the docket of the Louisiana Division of Administrative Law

During 2000, DEQ issued a Part 70 Air Permit modification to Louisiana Generating to construct and operate two 240 MW natural gas-fired turbines. The Part 70 Air Permit set emissions limits for the criteria air pollutants, including NO_x, based on the application of Best Available Control Technology ("BACT"). The BACT limitation for NO_x was based on the guarantees of the manufacturer, Siemens-Westinghouse. Louisiana Generating sought an interim emissions limit to allow Siemens-Westinghouse time to install additional control equipment. To establish the interim limit, DEQ issued a Compliance Order and Notice of Potential Penalty, No. AE-CN-02-0022, on September 8, 2002, which is, in part, subject to the referenced administrative hearing. DEQ alleged that Louisiana Generating did not meet its NO_x emissions limit on certain days, did not conduct all opacity monitoring and did not complete all record keeping and certification requirements. Louisiana Generating intends to vigorously defend certain claims and any future penalty assessment, while also seeking an amendment of its limit for NO_x. An initial status conference has been held with the Administrative Law Judge and quarterly reports will be submitted to describe progress, including settlement and amendment of the limit. In addition, NRG Energy may assert breach of warranty claims against the manufacturer. With respect to the administrative action described above, at this time NRG Energy is unable to predict the eventual outcome of this matter or the potential loss contingencies, if any, to which the Company may be subject.

NRG Sterlington Power, LLC

During 2002, NRG Sterlington conducted a review of the Sterlington Power Facility's Part 70 Air Permit obtained by the facility's former owner and operator, Koch Power, Inc. Koch had outlined a plan to install eight 25 megawatt (MW) turbines to reach a 200 MW limit in the permit. Due to the inability of several units to reach their nameplate capacity, Koch determined that it would need additional units to reach the electric output target. In August 2000, NRG Sterlington acquired the remaining interests in the facility not originally held on a passive basis and sought the transfer of the Part 70 Air Permit along with a modification to incorporate two 17.5 MW turbines installed by Koch and to increase the total number of turbines to ten. The permit modification was issued February 13, 2002. During further review, NRG Sterlington determined that a ninth unit had been installed prior to issuance of the permit modification. In keeping with its environmental policy, it disclosed this matter to DEQ during April, 2002. Additional information was provided during July 2002. As DEQ has not acted to date to institute an enforcement proceeding, NRG Energy suspects that it may not. However, as it is not time barred from doing so, NRG Energy is unable at this time to predict the eventual outcome or potential loss contingencies, if any, to which the Company may be subject.

FERC Investigation of Saguaro Power Company

On February 24, 2003, FERC initiated an investigation into whether Saguaro Power Company satisfied or currently satisfies the statutory and regulatory requirements for a qualifying facility under the Public Utility Regulatory Policies Act of 1978 ("PURPA"). PURPA provides special benefits for qualifying facilities regarding their rights to sell the electrical output of generation projects to electric utilities and exempts qualifying facilities from certain state and federal regulation. NRG Energy's wholly-owned subsidiary, Eastern Sierra Power Company, owns a 49% general partnership interest and a 1% limited partnership interest in Saguaro. The FERC Order initiating the investigation notes that certain financing arrangements between Enron North America and Boulder Power LLC, an indirect owner of a 14% general partnership interest and a 1% limited partnership interest in Saguaro, may have caused Saguaro not to meet the limitations on electric

utility ownership applicable to qualifying facilities under PURPA and FERC regulations. At this time, NRG Energy is unable to predict the likelihood of an unfavorable outcome of this matter or the remedies that the FERC would impose in the event it found that Sagauro did not or does not satisfy the requirements for a qualifying facility.

Stone & Webster, Inc. and Shaw Constructors, Inc. v. NRG Energy, Inc. et al.

On October 17, 2002, Stone & Webster, Inc. and Shaw Constructors, Inc. filed a lawsuit against NRG Energy, Xcel Energy, Inc., NRG Granite Acquisition LLC, Granite Power Partners II LP and two of Xcel Energy's executives relating to the construction of a power plant in Pike County, Mississippi. Plaintiffs generally allege that they were not paid for work performed to construct the power plant, and have sued the parent entities of the company with which they contracted to build the plant in order to recover amounts allegedly owing. Plaintiffs assert claims for breach of fiduciary duty, piercing the corporate veil, breach of contract, tortious interference with contract, enforcement of the NRG Energy guaranty, detrimental reliance, negligent or intentional misrepresentation, conspiracy, and aiding and abetting. On December 23, 2002, NRG Energy moved to dismiss the complaint in its entirety for failure to state a claim upon which relief can be granted. NRG Energy is currently awaiting plaintiffs' response to the motion. No trial date has yet been set in this matter and NRG Energy cannot presently predict the outcome of the dispute.

The Mississippi Involuntary Case

On October 17, 2002, a petition commencing an involuntary bankruptcy proceeding pursuant to Chapter 7 of the Bankruptcy Code was filed against LSP-Pike Energy, LLC, a subsidiary of NRG Energy, by Stone & Webster, Inc. and Shaw Constructors, Inc. — the joining petitioners in the Minnesota involuntary case described above — in the United States Bankruptcy Court for the Southern District of Mississippi. In their petition filed with the Mississippi Bankruptcy Court, the joining petitioners sought recovery of allegedly unpaid contractual construction-related obligations in an aggregate amount of \$73,833,328, which amount LSP-Pike Energy, LLC has disputed. LSP-Pike Energy, LLC filed an answer to the petition in the Mississippi involuntary case and served various interrogatory and deposition discovery requests on the joining petitioners. The Mississippi Bankruptcy Court has not entered any order for relief in the Mississippi involuntary case.

FirstEnergy Arbitration Claim

On November 29, 2001, The Cleveland Electric Illuminating Company, The Toledo Edison Company and FirstEnergy Ventures ("Sellers") entered into Purchase and Sale Agreements with NRG Able Acquisition LLC, which were guaranteed by NRG (collectively, "Purchasers"), for the purchase of certain power plants for approximately \$1.5 billion. On August 8, 2002, Sellers terminated the agreements and asserted that Purchasers were liable for anticipatory breach of the Purchase and Sale Agreements on the grounds that they could not finance the purchases. On August 8, 2002, Purchasers provided notice that they disagreed with Sellers' assertion. After Sellers filed a motion seeking a waiver of the automatic stay of Section 362(a) of the Bankruptcy Code, on February 21, 2003, Sellers, NRG Energy, and NRG Northern Ohio Generating LLC, f/k/a/ NRG Able, stipulated to the United States Bankruptcy Court, District of Minnesota, that they would agree to a waiver of the automatic stay, thereby allowing Sellers to commence arbitration against Purchasers regarding their dispute. The collection of any award, however, would remain fully subject to NRG Energy's automatic stay. The Bankruptcy Court approved the stipulation. On February 26, 2002, Sellers provided notice of their intent to commence arbitration proceedings against Purchasers. Sellers have yet to quantify their damage claim, though Sellers have stated publicly that they will seek to recover several hundred million dollars. NRG Energy cannot presently predict the outcome of this dispute.

General Electric Company and Siemens Westinghouse Turbine Purchase Disputes

NRG Energy and/or its affiliates have entered into several turbine purchase agreements with affiliates of General Electric Company and Siemens Westinghouse Power Corporation. GE and Siemens have notified NRG Energy that it is in default under certain of those contracts, terminated such contracts, and demanded

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that NRG Energy pay the termination fees set forth in such contracts. GE's claim amounts to \$120 million and Siemens' approximately \$45 million in cumulative termination charges. NRG Energy cannot at this time estimate the likelihood of unfavorable outcomes in these disputes.

Itiquira Energetica, S.A.

NRG Energy's indirectly controlled Brazilian project company, Itiquira Energetica S.A., the owner of a 156MW hydro project in Brazil, is currently in arbitration with the former EPC contractor for the project, Inepar Industria e Construcoes (Inepar). The dispute was commenced by Itiquira in September, 2002 and pertains to certain matters arising under the former EPC contract. Itiquira principally asserts that Inepar breached the contract and caused damages to Itiquira by (i) failing to meet milestones for substantial completion; (ii) failing to provide adequate resources to meet such milestones; (iii) failing to pay subcontractors amounts due; and (iv) being insolvent. Itiquira's arbitration claim is for approximately US\$40 million. Inepar has asserted in the arbitration that Itiquira breached the contract and caused damages to Inepar by failing to recognize events of force majeure as grounds for excused delay and extensions of scope of services and material under the contract. Inepar's damage claim is for approximately US\$10 million. On November 12, 2002, Inepar submitted its affirmative statement of claim, and Itiquira submitted its response and statement of counterclaims on December 14, 2002. Inepar replied to Itiquira's response and counterclaims on January 14, 2003. Itiquira is to submit its reply to Inepar's January 14 filing on March 14, 2003, and a hearing was held on March 21, 2003. NRG Energy cannot at this time estimate the likelihood of an unfavorable outcome in this dispute.

NRG Energy Credit Defaults

NRG Energy and various of its subsidiaries are in default under various of their credit facilities, financial instruments, construction agreements and other contracts, which have given rise to liens, claims and contingencies against them and may in the future give rise to additional liens, claims and contingencies against them. In addition, NRG Energy and various of its subsidiaries have entered into various guarantees, equity contribution agreements, and other financial support agreements with respect to the obligations of their affiliates, which have given rise to liens, claims and contingencies against them and may in the future give rise to additional liens, claims and contingencies against the party or parties providing the financial support. NRG Energy cannot at this time predict the outcome or financial impact of these matters.

Item 4 — *Submission of Matters to a Vote of Security Holders*

No matters were considered during the fourth quarter of 2002.

PART II

Item 5 — *Market Price for the Registrant's Common Equity and Related Stockholder Matters*

Quarterly Stock Data

During the period May 31, 2000 through June 3, 2002, NRG Energy's common stock was traded principally on the New York Stock Exchange (the Exchange). The common stock was first traded on the Exchange on May 31, 2000, concurrent with the underwritten initial public offering of shares of NRG Energy's common stock at an initial price to the public of \$15.00 per share. In June 2002 following the exchange of all publicly held shares for Xcel Energy stock, trading of NRG Energy common stock was terminated. There is no longer an established public trading market for NRG Energy's common equity.

Holders

All shares of NRG Energy common stock and Class A common stock are owned by Xcel Energy Wholesale Group Inc.

Dividends on Common Stock

NRG Energy has not paid and does not currently intend to distribute any earnings as dividends.

Item 6 — Selected Financial Data

The following table presents selected financial data of NRG Energy. The data included in the following table has been restated to reflect the assets, liabilities and results of operations of certain projects that have met the criteria for treatment of discontinued operation. For additional information refer to Item 15 — Note 5 of the accompanying financial statements. This historical data should be read in conjunction with the Consolidated Financial Statements and the related notes thereto in Item 15 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Total operating revenues and equity earnings	2,281,149	2,411,459	1,810,138	491,689	173,673
Write downs and losses on equity method investments	196,192	—	—	—	—
Special charges	2,656,093	—	—	—	—
Total operating costs and expenses	4,869,165	1,793,503	1,326,474	384,781	122,206
Income/(loss) from continuing operations	(2,907,661)	218,212	150,929	57,501	37,858
Income/(loss) from discontinued operations	(556,621)	46,992	32,006	(306)	3,874
Net Income/(loss)	(3,464,282)	265,204	182,935	57,195	41,732
Total assets	10,883,688	12,913,597	5,978,992	3,431,892	1,293,477
Long-term debt, including current maturities	8,385,867	7,492,790	3,205,420	1,716,860	626,476

Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations**Overview**

Due to the factors discussed below, as well as other matters discussed herein, NRG Energy’s financial condition has deteriorated significantly in the recent past. See “Liquidity” below. As a result, NRG Energy does not contemplate that it will have sufficient funds to make required principal and interest payments on its corporate debt, which means that NRG Energy will remain in default of the various corporate level debt obligations discussed more fully herein. In the absence of a consensual out of court restructuring or a Chapter 11 reorganization, it is highly likely that NRG Energy will be required to commence chapter 11 bankruptcy cases to allow it to implement its own plan of reorganization. The commencement of a voluntary chapter 11 bankruptcy proceeding without a consensual plan of reorganization will increase the possibility of a prolonged bankruptcy proceeding.

Industry Dynamics

An unregulated merchant power company in the United States can be characterized in two ways, as a generator or as an energy merchant, with some companies having characteristics of both. In the United States generators are either outgrowths of regulated utilities, developers or are independent aggregators of plants divested by utilities. Generators have grown through acquisitions or the construction of new power plants. Energy merchants have emphasized risk management and trading skills over the ownership of physical assets. Energy deregulation paved the way for development of these companies, with utilities in some regions forced to sell off some of their generating capacity and buy electricity on the wholesale market or through power procurement agreements.

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Both generators and energy merchants prospered in the late 1990's. Starting in 1999, however, a number of factors began to arise which had a negative effect on the business model for merchant power companies. These factors included:

California — When California restructured its electricity industry in the mid-1990's, it required utilities to sell generation assets and buy electricity on the wholesale spot market, without the stability of long-term contracts. At the time, California had adequate supplies of power, but the State of California was experiencing unusually high electricity demand growth while new capacity additions were not keeping pace. Supply began to lag behind demand, and previously moderate weather gave way to dryer conditions, reducing hydroelectric supply. Shortages and blackouts ensued in 1999 and 2000. Meanwhile, as wholesale electricity prices moved higher, utilities were not allowed to pass higher costs on to consumers under California's regulatory regime. Utilities were unable to bear the financial burden, PG&E sought Chapter 11 protection, and California took over the role of procuring electricity for the utilities. Politicians have criticized the electricity generators and the energy merchants, accusing them of improperly manipulating supply, demand and market rules. Merchant power companies in California are now embroiled in protracted litigation with California and private parties, which is discouraging new investment.

Economy — The United States economy, already headed towards a recession by mid-2001, suffered a heavy blow on September 11, 2001. This, along with a decrease in economically driven electricity demand, exacerbated the drop in stock valuations of the energy merchants. Other regions of the world economy have suffered problems as well, which has exposed companies with international assets to losses based on severe currency fluctuations.

Weather — On the whole, the summer of 2001, the winter of 2001/2002 and the summer of 2002 were mild in the United States. This together with excessive new construction in many markets has driven down energy prices significantly.

Enron — The bankruptcy of Enron has devastated the merchant power industry. The public and political perception created by Enron put a stigma on the industry, drove investors away and increased scrutiny of the industry. Enron also played a key role in the energy trading markets, providing a widely used electronic trading platform that accounted for an enormous amount of trading volume. No other company has stepped in to fill this role, and as a result the electricity markets have become far less efficient and liquid.

Credit ratings — The credit rating agencies were sharply criticized for not foreseeing Enron's problems. As a result, the agencies have been quick to scrutinize the rest of the industry, and have tightened their criteria for creditworthiness. The agencies have downgraded most, if not all, of the industry participants. Many of these downgrades were severe — ratings at times were dropped several notches at once, or dropped more than once in a span of weeks. This has resulted in most of the energy companies, generators and merchants having non-investment grade credit ratings at this time.

Oversupply — As wholesale electricity prices and market liquidity increased in the late 1990's the industry went on a building boom. Through 2001 capital was readily available for the industry, encouraging companies to build new generation facilities. The years 2000 and 2001 saw record megawatt capacity additions in the United States, and record years were on the horizon for 2002 and 2003. Even with steady economic growth this would have created an oversupply of generation. Limited economic growth and recession have exacerbated the oversupply situation.

Results of Operations

For the Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

Net Loss

During the year ended December 31, 2002, NRG Energy recognized a net loss of \$3,464.3 million. This loss represented a decrease in earnings of \$3,729.5 million compared to net income of \$265.2 million for the same period in 2001. NRG Energy's loss from continuing operations was \$2,907.7 million for the year ended December 31, 2002 compared to net income of \$218.2 million from continuing operations for the same period

in 2001. The loss from continuing operations incurred during 2002 primarily consists of \$2,656.1 million of special charges comprised primarily of asset impairments.

During 2002, NRG Energy's continuing operations experienced less favorable results than those experienced during the same period 2001. Overall, NRG Energy's domestic power generation operations were less favorable than compared to the same period in 2001. NRG Energy's domestic operations experienced reductions in domestic energy and capacity sales and an overall decrease in power pool prices and related spark spreads (the monetary difference between the price of power and fuel cost). During the fourth quarter of 2002, an additional reserve for uncollectible receivables in California was established by West Coast Power, which reduced NRG Energy's equity earnings by approximately \$58.5 million on a pre-tax basis. In addition, West Coast Power's results were already less than those recorded in 2001 due to less favorable contracts and reductions in sales of energy and capacity. In addition, increased administrative costs, depreciation and interest expense from completed construction costs also contributed to the less than favorable results in 2002. Partially off setting these earnings reductions was the recognition, in the fourth quarter of 2002, of approximately \$51 million of additional revenues related to the contractual termination of a power purchase agreement with NRG Energy's Indian River project.

During the third quarter of 2002, NRG Energy experienced credit rating downgrades, defaults under certain credit agreements, increased collateral requirements and reduced liquidity. These events led to impairments on a number of NRG Energy assets, resulting in pre-tax charges related to continuing operations of approximately \$2,544.8 million during 2002. In addition, approximately \$196.2 million of net losses on sales and write-downs of equity method investments were recorded in 2002. Operating results of majority owned projects that were sold or have met the criteria to be considered as held-for-sale have been classified as discontinued operations.

As of December 31, 2002, NRG Energy's Killingholme project and Hsin Yu project were classified as held for sale. The sales of Bulo Bulo, Csepel, Entrade and Crockett had been completed. In addition, the sale of NRG Energy's investments in Mt. Poso, Collinsville, EDL, Sabine River Works, Kingston and NEO MESI had also taken place. The sale of NRG Energy's investment in ECKG was pending at the end of 2002, and was completed in January 2003, along with the transfer of NRG Energy's ownership interest in the Killingholme and the transfer of the ownership interest in the Brazos Valley project to its lenders.

During 2002, NRG Energy expensed approximately \$111.3 million in 2002 for costs related to its financial restructuring. These costs include expenses for financial and legal advisors, contract termination costs, employee separation and other restructuring activities.

Revenues and Equity in Earnings of Unconsolidated Affiliates

During 2002, total operating revenues and equity earnings from continuing operations were \$2,281.1 million compared to \$2,411.5 million in the prior year, a decrease of \$130.4 million, or 5.4%. The primary reason for this decrease was a reduction in Equity earnings from unconsolidated affiliates of \$141.0 million. The \$141.0 million decrease in equity earnings from unconsolidated affiliates is due primarily to lower results at West Coast Power in 2002 as compared to the same period in 2001. During 2002, West Coast Power had long-term contracts that were less favorable than those held in 2001. In addition during 2002, West Coast Power also established reserves for certain receivables not considered recoverable. NRG Energy's share of this reserve was approximately \$58.5 million on a pre-tax basis.

Revenues from Majority-Owned Operations

NRG Energy's operating revenues from majority-owned operations were \$2,212.2 million in 2002 compared to \$2,201.4 million in the prior year, an increase of \$10.8 million or approximately 0.5%. Revenues from majority-owned operations for the year ended December 31, 2002, consisted primarily of power generation revenues from domestic operations of approximately \$1,650.9 million in 2002 compared with \$1,679.6 million in 2001, a decrease of \$28.7 million. This decrease in domestic generation revenue is due to reductions in energy and capacity sales and an overall decrease in power pool prices.

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Within the North American Segment, NRG Energy's Eastern region revenues decreased by approximately 20.9%. The Eastern region revenues were significantly affected by a combination of lower capacity revenues and a decline in megawatt hour generation compared with 2001. This decline in generation is attributable to an unseasonably warm winter and cooler spring and a slowing economy which reduced demand for electricity, together with new regulation which reduced price volatility, particularly in New York City. The Central region generated increased revenues of 39.9% primarily due to a full year of operations compared to plants acquired and completed in 2001.

NRG Energy's International revenues from majority owned operations increased by \$22.4 million or 7.1% from 2001 to 2002. The Asia Pacific region reported a reduction in revenues of \$42.4 million while increases were reported from Europe of \$34.9 million and Other Americas of \$29.9 million. The reduction in Asia Pacific revenue is primarily due to a decline in energy prices and the loss of a significant contract at Flinders. The increase in Europe and other Americas revenue is primarily due to a full year of operations for acquisitions made in 2001.

Equity in Earnings of Unconsolidated Affiliates

For the year ended December 31, 2002, NRG Energy had equity in earnings of unconsolidated affiliates of \$69.0 million, compared to \$210.0 million for 2001, a decrease of \$141.0 million or approximately 67.1%. The \$141.1 million decrease in Equity earnings from unconsolidated affiliates is due primarily to unfavorable results at West Coast Power in 2002 as compared to the same period in 2001. During 2002, West Coast Power had long-term contracts that were less favorable than those held in 2001. In addition during 2002, West Coast Power established reserves for certain receivables not considered recoverable. NRG Energy's share of this reserve was approximately \$58.5 million on a pre-tax basis.

Operating Costs and Expenses

For the year ended December 31, 2002, cost of majority-owned operations related to continuing operations was \$1,510.6 million compared to \$1,430.0 million for 2001, an increase of \$80.6 million or approximately 5.6%. For the years ended December 31, 2002 and 2001, cost of majority-owned operations represented approximately 68.3% and 65.0% of revenues from majority-owned operations, respectively. Cost of majority-owned operations consists primarily of cost of energy (primarily fuel costs), labor, operating and maintenance costs and non-income based taxes related to NRG Energy's majority-owned operations.

Cost of energy increased from \$974.7 million for the year ended December 31, 2001 to \$1,015.2 million for the year ended December 31, 2002. This represents an increase of \$40.5 million or 4.2%. As a percent of revenue from majority owned operations cost of energy was 45.9% and 44.2% for the years ended December 31, 2002 and 2001, respectively.

Operating and maintenance costs increased from \$356.9 million for the year ended December 31, 2001 to \$415.8 million for the year ended December 31, 2002. This represents an increase of \$58.9 million or 16.5%. As a percent of revenue from majority owned operations, operating and maintenance costs represented 18.8% and 16.2%, for the years ended December 31, 2002 and 2001, respectively. The dollar increase in operating and maintenance expense is primarily due to a full year of expense in 2002 related to assets acquired during 2001.

Depreciation and Amortization

For the year ended December 31, 2002, depreciation and amortization related to continuing operations was \$256.2 million, compared to \$169.6 million for the year ended December 31, 2001, an increase of \$86.6 million or approximately 51.1%. This increase is primarily due to the addition of property, plant and equipment related to NRG Energy's recently completed acquisitions of electric generating facilities.

General, Administrative and Development

For the year ended December 31, 2002, general, administrative and development costs were \$250.1 million, compared to \$193.9 million, an increase of \$56.2 million or approximately 29.0%. For the year ended

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December 31, 2002 and 2001, general, administrative and development costs represent 11.3% and 8.8% of revenues from majority-owned operations, respectively. This increase is primarily due to an increase in bad debt expense of approximately \$39.2 million over 2001. Additionally there was an increase in other general administrative expenses due to 2001 acquisitions, newly constructed facilities coming on line. These increases were partially offset by decreases in business development expenses and other reductions to costs previously incurred to support international and expanded operations.

Write-Downs and Losses on Sales of Equity Method Investments

For the year ended December 31, 2002, write-downs and losses on equity method investments were \$196.2 million. The \$196.2 million charge consists primarily of write downs taken related to NRG Energy's investment in Loy Yang in the total amount of \$111.4 million. In addition, NRG Energy recorded a loss of \$48.4 million upon the transfer of its investment in SRW Cogeneration and recorded write-downs of \$14.2 million and \$3.6 million of its investments in EDL and Collinsville, respectively.

Special Charges

During the third quarter of 2002, NRG Energy experienced credit rating downgrades, defaults under certain credit agreements, increased collateral requirements and reduced liquidity. NRG Energy applied the provisions of SFAS No. 144 to its construction and operational projects. NRG Energy completed an analysis of the recoverability of the asset carrying values of its projects factoring in the probability of different courses of action available to NRG Energy given its financial position and liquidity constraints. As a result, NRG Energy determined during the third quarter that many of its construction projects and certain operational projects were impaired and should be written down to fair market value. To estimate fair value, NRG Energy management considered discounted cash flow analyses, bids and offers related to those projects and prices of similar assets. During 2002, NRG Energy recorded asset impairment and other special charges related to continuing operations of \$2,656.1 million. See Item 15 — Note 3 to the Consolidated financial statements and notes of this Form 10-K for additional information.

Additional asset impairments and other charges may be recorded by NRG Energy in periods subsequent to December 31, 2002, given the changing business conditions and the resolution of the pending restructuring plan. Management is unable to determine the possible magnitude of any additional asset impairments.

During 2002, NRG Energy expensed charges of \$25.6 million for expected severance costs, primarily related to terminated executives, associated with the restructuring of NRG Energy, and of this amount, \$4.7 million of cash was paid as of December 31, 2002.

In addition to asset impairment charges and severance costs, NRG Energy has incurred \$85.8 million of restructuring costs consisting of financial and legal advisor fees, contract termination fees and other such costs. NRG Energy expects that costs such as these will continue for the near term as NRG Energy continues to restructure its operations.

NRG Energy is also impacted by rule/tariff changes that occur in the existing ISOs. On March 1, 2003, ISO-NE implemented its version of Standard Market Design. This change dramatically modifies the New England market structure by incorporating Locational Marginal Pricing (LMP — pricing by location rather than on a New England wide basis.) Even though NRG Energy views this change as a significant improvement to the existing market design, NRG Energy still views the market within New England as insufficient to allow for NRG Energy to recover its costs and earn a reasonable return on investment. Consequently, on February 26, 2003, NRG Energy filed and requested a cost of service rate with FERC for most of its Connecticut fleet, requesting a February 27th effective date. NRG Energy remains committed to working with ISO-NE, FERC and other stakeholders to continue to improve the New England market that will hopefully make further reliance on a cost of service rate unnecessary. While NRG Energy has the right to file for such rate treatment, there are no assurances that FERC will grant such rates in the form or amount that NRG Energy petitioned for in its filing. If FERC declines to grant cost of service based rates in Connecticut, there may be additional impairments related to the Connecticut assets.

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On March 25, 2003, the Federal Energy Regulatory Commission ("FERC") issued an order (the "Order") in response to Devon Power LLC's, Middletown Power LLC's, Montville Power LLC's, and Norwalk Power LLC's (collectively, "NRG Subsidiaries") Joint Motion for Emergency Expedited Issuance of Order by March 17, 2003 in Docket No. ER03-563-000 (the "Emergency Motion"). In the Emergency Motion, the NRG Subsidiaries requested that FERC accept the NRG Subsidiaries' reliability must-run agreements and assure the NRG Subsidiaries' recovery of maintenance costs for their New England generating facilities prior to the peak summer season. FERC accepted the NRG Subsidiaries' filing as to the recovery of spring 2003 maintenance costs, subject to refund. FERC's Order authorizes the ISO New England Inc. to begin collecting these maintenance costs in escrow for the benefit of the NRG Subsidiaries as of February 27, 2003. Several intervenors protested the Emergency Motion. FERC will rule on such protests and the other issues raised in the Emergency Motion in a subsequent order.

Other Income (Expense)

For the year ended December 31, 2002, total other expense was \$485.0 million, compared to \$371.7 million for the year ended December 31, 2001, an increase of \$113.3 million or approximately 30.5%. The increase in total other expense from 2001 consisted primarily of an increase in interest expense.

For the year ended December 31, 2002, interest expense (which includes both corporate and project level interest expense) was \$494.0 million, compared to \$389.3 million in 2001, an increase of \$104.7 million or approximately 26.9%. This increase is due primarily to increased corporate and project level debt. NRG Energy issued substantial amounts of long-term debt at both the corporate level (recourse debt) and project level (non-recourse debt) to either directly finance the acquisition of electric generating facilities or refinance short-term bridge loans incurred to finance such acquisitions.

For the year ended December 31, 2002, minority interest in earnings of consolidated subsidiaries was a gain of \$4.8 million, compared to a loss of \$2.3 million, an increase of \$7.1 million, as compared to 2001. The decrease is primarily due to lower earnings from Timber Energy Resources, as compared to 2001.

For the year ended December 31, 2002, other income, net, was a gain of \$4.2 million, as compared to \$19.9 million for the year ended December 31, 2001, a decrease of \$15.7 million, or approximately 78.9%. Other income, net consists primarily of interest income on cash balances and realized and unrealized foreign currency exchange gains and losses.

Income tax

It is likely that Xcel Energy will not request Internal Revenue Service consent to consolidate NRG Energy for income tax purposes for 2002. Therefore, the income tax provision for NRG Energy is based on a consolidated NRG Energy group through June 3, 2002, and separate income tax returns starting June 4, 2002. On a stand-alone basis, it is uncertain if NRG Energy would be able to fully realize tax benefits on its losses and therefore a valuation allowance has been provided.

For the year ended December 31, 2002, income tax benefit from continuing operations was \$165.4 million, compared to an income tax expense of \$28.1 million for the year ended December 31, 2001, a decrease of \$193.5 million. NRG Energy recorded an income tax benefit in 2002 for operating losses to the extent realization was considered more likely than not. Tax benefits were not recorded for items NRG was uncertain that there would be sufficient operating losses to offset operating income in future periods.

Discontinued Operations

As of December 31, 2002, NRG Energy has classified the operations and gains/losses recognized on the sales of certain entities as discontinued operations. Discontinued operations consist of the historical operations and net gains/losses related to its Crockett Cogeneration, Entrade, Killingholme, Csepel, Hsin Yu and Bulu Bulu projects that were sold in 2002 or were deemed to have met the required criteria for such classification

pending final disposition (the Killingholme and Hsin Yu projects). For 2002, the results of operations related to such discontinued operations was a net loss of \$556.6 million as compared to a gain of \$47.0 million for the same period in 2001. The primary reason for the loss recognized in 2002 is due to asset impairments recorded at Killingholme and Hsin Yu.

For the Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Net Income

Net income for 2001 was \$265.2 million, compared to \$182.9 million for 2000, an increase of \$82.3 million or approximately 45.0%. Net income for 2001 increased by \$82.3 million due to the factors described below.

Revenues and Equity in Earnings of Unconsolidated Affiliates

For the year ended December 31, 2001, NRG Energy had total revenues and equity earnings from continuing operations of \$2,411.5 million, compared to \$1,810.1 million for 2000, an increase of \$601.4 million or approximately 33.2%.

Revenues from majority-owned operations

NRG Energy's operating revenues from majority-owned operations were \$2,201.4 million compared to \$1,670.8 million, an increase of \$530.6 million or approximately 31.8%. Revenues from majority-owned operations for the year ended December 31, 2001 consisted primarily of power generation revenues from domestic operations of approximately \$1,679.6 million, operations in Europe of \$72.6 million, Asia-Pacific \$214.8 million and Other Americas \$28.2 million, resulting in increases of \$231.3 million, \$71.2 million, \$120.0 million and \$27.9 million compared to 2000, respectively. In addition, NRG Energy recognized revenues from majority-owned operations from its alternative energy, thermal and other operations of approximately \$79.5 million, \$108.3 million and \$18.5 million respectively, resulting in increases of \$45.1 million, \$23.4 million and \$11.7 million compared to 2000, respectively.

The increase of \$231.3 million related to NRG Energy's domestic power generation operations is due primarily to additional sales at NRG Energy's Eastern region facilities which were acquired in June 2001 from Conectiv and increased sales at NRG Energy's South Central region facilities which were primarily acquired in March 2000 from Cajun Electric and expanded with the acquisition of the Batesville facility from LS Power in January 2001 and completion of the Sterlington and Big Cajun 1 peaking facilities in 2001.

The increase of \$71.2 million related to NRG Energy's Europe power generation operations is due primarily to operations at Saale Energie in Germany (SEG).

The increase of \$120.0 million related to NRG Energy's Asia-Pacific's power generation operations is due primarily to a full year of operations at the Flinders Power facilities which was acquired in August 2000.

The increase of \$27.9 million related to NRG Energy's Other America's power generation operations is due primarily to the consolidation in 2001 of the COBEE facility which was previously accounted for under the equity method.

Equity in Earnings of Unconsolidated Affiliates

For the year ended December 31, 2001, NRG Energy had equity in earnings of unconsolidated affiliates of \$210.0 million, compared to \$139.4 million for 2000, an increase of \$70.6 million or approximately 50.6%. The increase of \$70.6 million is primarily comprised of favorable results from NRG Energy's domestic and international power generation equity investments. During 2001, NRG Energy's domestic power generation investment in West Coast Power contributed \$41.0 million of this increase. Additionally, approximately \$40.2 million of the increase is from NRG Energy's international power generation investments. These increases were partially offset by unfavorable results at NRG Energy's other investments accounted for under

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the equity method and continued reductions in the equity earnings attributable to NEO Corporation. NEO Corporation derives a significant portion of its net income from Section 29 tax credits.

Operating Costs and Expenses

For the year ended December 31, 2001, cost of majority-owned operations was \$1,430.0 million compared to \$1,060.1 million for 2000, an increase of \$369.9 million or approximately 34.9%. For the years ended December 31, 2001 and 2000, cost of majority-owned operations represented approximately 65.0% and 63.4% of revenues from majority-owned operations, respectively. Cost of majority-owned operations consists primarily of cost of energy (primarily fuel costs), labor, operating and maintenance costs and non-income based taxes related to NRG Energy's majority-owned operations.

Cost of energy increased from \$718.4 million for the year ended December 31, 2000 to \$974.7 million for the year ended December 31, 2001 primarily due to 2001 domestic and international acquisitions. This represents an increase of \$256.3 million or 35.7%. As a percent of revenue from majority owned operations, cost of energy was 44.3% and 43.0% for the years ended December 31, 2001 and 2000, respectively. Approximately 69.3% of the increase in operating costs and expenses for 2001 compared to 2000 of \$369.9 million is primarily due to increased cost of energy.

Operating and maintenance costs increased from \$259.4 million for the year ended December 31, 2000 to \$356.9 million for the year ended December 31, 2001. This represents an increase of \$97.5 million or 37.6%. As a percent of revenue from majority owned operations operating and maintenance costs represented 16.2% and 15.5%, for the years ended December 31, 2001 and 2000, respectively. The dollar increase in operating and maintenance expense is primarily due to 2001 domestic and international acquisitions.

Depreciation and Amortization

For the year ended December 31, 2001, depreciation and amortization from continuing operations was \$169.6 million, compared to \$97.3 million for the year ended December 31, 2000, an increase of \$72.3 million or approximately 74.3%. This increase is primarily due to the addition of property, plant and equipment related to NRG Energy's recently completed acquisitions of electric generating facilities.

General, Administrative and Development

For the year ended December 31, 2001, general, administrative and development costs were \$193.9 million, compared to \$169.0 million, an increase of \$24.9 million or approximately 14.7%. This increase is primarily due to increased business development activities, associated legal, technical and accounting expenses, employees and equipment resulting from expanded operations and pending acquisitions. This also includes a \$10.3 million expense related to Enron's bankruptcy. This amount includes a pre-tax charge of \$22.4 million to establish bad debt reserves, which was partially offset by a pre-tax gain of \$12.1 million on a credit swap agreement entered into as part of the NRG Energy's credit risk management program.

Other Income (Expense)

For the year ended December 31, 2001, total other expense was \$371.7 million, compared to \$245.8 million for the year ended December 31, 2000, an increase of \$125.9 million or approximately 51.2%. The increase in total other expense of \$125.9 million, from 2000, consisted primarily of an increase in interest expense that was partially offset by an increase in other income and a reduction in minority interest in earnings of consolidated subsidiaries.

For the year ended December 31, 2001, interest expense (which includes both corporate and project level interest expense) was \$389.3 million, compared to \$250.8 million in 2000, an increase of \$138.5 million or approximately 55.2%. This increase is due to increased corporate and project level debt issued during 2001. During 2001, NRG Energy issued substantial amounts of long-term debt at both the corporate level (recourse debt) and project level (non-recourse debt) to either directly finance the acquisition of electric generating facilities or refinance short-term bridge loans incurred to finance such acquisitions.

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For the year ended December 31, 2001, minority interest in earnings of consolidated subsidiaries was \$2.2 million, compared to \$0.8 million, an increase of \$1.4 million or approximately 175.0%, as compared to 2000.

For the year ended December 31, 2001, other income, net, was \$19.9 million, as compared to \$5.8 million for the year ended December 31, 2000, an increase of \$14.1 million, or approximately 243.1%. Other income, net, consists primarily of interest income on cash balances and loans to affiliates, and miscellaneous other items, including the income statement impact of certain foreign currency translation adjustments and the impact of gains and losses on the dispositions of investments. Approximately \$18.0 million of the increase relates to interest on cash balances and loans to affiliates, primarily West Coast Power. The increase also includes gains on foreign currency translation adjustments and miscellaneous asset sales that were partially offset by a \$3.8 million charge to write-off capitalized costs associated with the Estonia project.

Income Tax

For the year ended December 31, 2001, income tax expense was \$28.1 million, compared to an income tax expense of \$86.9 million for the year ended December 31, 2000, a decrease of \$58.8 million. Approximately \$14.7 million of the decrease is attributed to additional IRC Section 29 energy credits that were recorded in 2001, as compared to the same period in 2000. NRG Energy reported a worldwide effective tax rate of approximately 11.4% for the year ended December 31, 2001, compared to approximately 36.5% for the year ended December 31, 2000. The overall reduction in tax rates was primarily due to the increase in energy credits, the implementation of state tax planning strategies and a higher percentage of NRG Energy's overall earnings derived from foreign projects in lower tax jurisdictions.

Discontinued Operations

Income from discontinued operations was \$47.0 million in 2001 compared to \$32.0 million in 2000.

Critical Accounting Policies and Estimates

NRG Energy's discussion and analysis of its financial condition and results of operations are based upon NRG Energy's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements and related disclosures in compliance with generally accepted accounting principles (GAAP) requires the application of appropriate technical accounting rules and guidance as well as the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies have not changed.

On an ongoing basis, NRG Energy, evaluates its estimates, utilizing historic experience, consultation with experts and other methods NRG Energy considers reasonable. In any case, actual results may differ significantly from NRG Energy's estimates. Any effects on NRG Energy's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

NRG Energy's significant accounting policies are summarized in Item 15 — Note 2 of the Consolidated Financial Statements. The following table identifies certain of the significant accounting policies listed in Item 15 — Note 2 of the Consolidated Financial Statements. The table also identifies the judgments required and uncertainties involved in the application of each. These policies, along with the underlying assumptions and judgments made by NRG Energy's management in their application, have a significant impact on NRG Energy's consolidated financial statements. NRG Energy identifies its most critical accounting policies as those that are the most pervasive and important to the portrayal of NRG Energy's financial position and

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results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates about matters that are inherently uncertain.

<u>Accounting Policy</u>	<u>Judgments/Uncertainties Affecting Application</u>
Capitalization Practices/ Purchase Accounting	<ul style="list-style-type: none">• Determination of beginning and ending of capitalization periods• Allocation of purchase prices to identified assets
Asset Valuation and Impairment	<ul style="list-style-type: none">• Recoverability of investment through future operations• Regulatory and political environments and requirements• Estimated useful lives of assets• Environmental obligations and operational limitations• Estimates of future cash flows• Estimates of fair value
Revenue Recognition	<ul style="list-style-type: none">• Judgment about triggering events• Customer/counter-party dispute resolution practices• Market maturity and economic conditions• Contract interpretation
Uncollectible Receivables	<ul style="list-style-type: none">• Economic conditions affecting customers, counter parties, suppliers and market prices
Derivative Financial Instruments	<ul style="list-style-type: none">• Regulatory environment and impact on customer financial condition• Outcome of litigation and bankruptcy proceedings• Market conditions in the energy industry, especially the effects of price volatility on contractual commitments• Assumptions used in valuation models• Counter party credit risk• Market conditions in foreign countries
Litigation Claims and Assessments	<ul style="list-style-type: none">• Regulatory and political environments and requirements• Impacts of court decisions• Estimates of ultimate liabilities arising from legal claims
Income Taxes and Valuation Allowance for Deferred Tax Assets	<ul style="list-style-type: none">• Ability of tax authority decisions to withstand legal challenges or appeals• Anticipated future decisions of tax authorities• Application of tax statutes and regulations to transactions.• Ability to utilize tax benefits through carrybacks to prior periods and carryforwards to future periods.• Filing elections that may be made by Xcel Energy to include NRG Energy in its consolidated tax return

Of all of the accounting policies identified in the above table, NRG Energy believes that the following policies and the application thereof to be those having the most direct impact on NRG Energy's financial position and results of operations.

Capitalization Practices and Purchase Accounting

As of December 31, 2002, NRG Energy has a carrying value of approximately \$6.8 billion of net property, plant and equipment, \$623.8 million of which is under construction or turbines being marketed, representing approximately 62.4% and 5.7% of total assets, respectively. The majority of the carrying value of

property, plant and equipment is the result of NRG Energy's recent asset acquisitions and constructions. These amounts represent the estimated fair values at the date of acquisition and construction.

For those assets that were or are being constructed by NRG Energy the carrying value reflects the application of NRG Energy's property, plant and equipment policies which incorporate estimates, assumptions and judgments by management relative to the capitalized costs and useful lives of NRG Energy's generating facilities. 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 asset under construction is ready for its intended use or when construction is terminated. Capitalized interest was approximately \$64.8 million in 2002. Development costs and capitalized project costs include third party professional services, permits, and other costs which are incurred incidental to a particular project. Such costs are expensed as incurred until an acquisition agreement or letter of intent is signed, and the project has been approved by NRG Energy's Board of Directors. Additional costs incurred after this point are capitalized. When a project begins operation, previously capitalized project costs are reclassified to equity investments in affiliates or property plant and equipment and amortized on a straight-line basis over the lesser of the life of the project's related assets or revenue contract period.

Impairment of Long Lived Assets

NRG Energy evaluates property, plant and equipment and intangible assets for impairment whenever indicators of impairment exist. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset, through considering project specific assumptions for long-term power pool prices, escalated future project operating costs and expected plant operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets by factoring in the probability weighting of different courses of action available to NRG Energy. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell. As of December 31, 2002, net income from continuing operations was reduced by \$2.5 billion due to impairments recorded in 2002. Asset impairment evaluations are, by nature highly subjective.

Revenue Recognition and Uncollectible Receivables

NRG Energy is primarily an electric generation company, operating a portfolio of majority-owned electric generating plants and certain plants in which its ownership is 50% or less which are accounted for under the equity method of accounting. NRG Energy also produces thermal energy for sale to customers and collects methane gas from landfill sites, which is then used for the generation of electricity. Both physical and financial transactions are entered into to optimize the financial performance of NRG Energy's generating facilities. Electric energy is recognized upon transmission to the customer. Capacity and ancillary revenue is recognized when contractually earned. Revenues from operations and maintenance services is recognized when the services are performed. NRG Energy uses the equity method of accounting to recognize its pro rata share of the net income or loss of its unconsolidated investments. NRG Energy continually assesses the collectibility of its receivables, and in the event it believes a receivable to be uncollectible, an allowance for doubtful accounts is recorded or, in the event of a contractual dispute, the receivable and corresponding revenue may be considered unlikely of recovery and not recorded in the financial statements until management is satisfied that it will be collected.

Derivative Financial Instruments

In January 2001, NRG Energy adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 requires NRG Energy to record all derivatives on the balance sheet at fair value. Changes in the fair value of non-hedge derivatives are immediately recognized in earnings. Changes in the fair value of derivatives accounted for as hedges are either recognized in earnings as an offset to the changes in the fair value of the related hedged assets, liabilities and firm commitments or for forecasted transactions, deferred and recorded as a component of accumulated

other comprehensive income (OCI) until the hedged transactions occur and are recognized in earnings. NRG Energy primarily applies SFAS No. 133 to long-term power sales contracts, long-term gas purchase contracts and other energy related commodities and financial instruments used to mitigate variability in earnings due to fluctuations in spot market prices, hedge fuel requirements at generation facilities and protect investments in fuel inventories. SFAS No. 133 also applies to interest rate swaps and foreign currency exchange rate contracts. The application of SFAS No. 133 results in increased volatility in earnings due to the impact market prices have on the market positions and financial instruments that NRG Energy has entered into. In determining the fair value of these derivative/financial instruments NRG Energy uses estimates, various assumptions, judgment of management and when considered appropriate third party experts in determining the fair value of these derivatives.

Liquidity and Capital Resources

In December 2001, Moody's Investor Service (Moody's) placed NRG Energy's long-term senior unsecured debt rating on review for possible downgrade. In response, Xcel Energy and NRG Energy put into effect a plan to preserve NRG Energy's investment grade rating and improve its financial condition. This plan included financial support to NRG Energy from Xcel Energy; marketing certain NRG Energy assets for sale; canceling and deferring capital spending; and reducing corporate expenses.

In response to a possible downgrade, during 2002, Xcel Energy contributed \$500 million to NRG Energy, and NRG Energy and its subsidiaries sold assets and businesses that provided NRG Energy in excess of \$286 million in cash and eliminated approximately \$432.0 million in debt. NRG Energy also cancelled or deferred construction of approximately 3,900 MW of new generation projects. On July 26, 2002, Standard & Poors' (S&P) downgraded NRG Energy's senior unsecured bonds to below investment grade, and three days later Moody's also downgraded NRG Energy's senior unsecured debt rating to below investment grade. Since July 2002, NRG Energy senior unsecured debt, as well as the secured NRG Northeast Generating LLC bonds and the secured NRG South Central Generating LLC bonds and Secured LSP Energy (Batesville) bonds were downgraded multiple times. After NRG Energy failed to make payments due under certain unsecured bond obligations on September 16, 2002, both Moody's and S&P lowered their ratings on NRG Energy's and its subsidiaries' unsecured bonds once again. Currently, NRG Energy's unsecured bonds carry a rating of between CCC and D at S&P and between Ca and C at Moody's, depending on the specific debt issue.

As a result of the downgrade of NRG Energy's credit rating, declining power prices, increasing fuel prices, the overall down-turn in the energy industry, and the overall down-turn in the economy, NRG Energy has experienced severe financial difficulties. These difficulties have caused NRG Energy to, among other things, miss scheduled principal and interest payments due to its corporate lenders and bondholders, prepay for fuel and other related delivery and transportation services and provide performance collateral in certain instances. NRG Energy has also recorded asset impairment charges of approximately \$3.1 billion, related to various operating projects as well as for projects that were under construction which NRG Energy has stopped funding.

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NRG Energy and its subsidiaries have failed to timely make the following interest and/or principal payments on its indebtedness:

Debt (\$ in millions)	Amount Issued	Rate	Maturity	Interest Due	Principal Due	Date Due
Recourse Debt (unsecured)						
NRG Energy ROARS	\$ 250.0	8.700%	3/15/2005	\$ 10.9	—	9/16/2002
	\$ 250.0	8.700%	3/15/2005	\$ 10.9	—	3/17/2003
NRG Energy senior notes	\$ 350.0	8.250%	9/15/2010	\$ 14.4	—	9/16/2002
	\$ 350.0	8.250%	9/15/2010	\$ 14.4	—	3/17/2003
NRG Energy senior notes	\$ 350.0	7.750%	4/1/2011	\$ 13.6	—	10/1/2002
NRG Energy senior notes	\$ 500.0	8.625%	4/1/2031	\$ 21.6	—	10/1/2002
NRG Energy senior notes	\$ 240.0	8.000%	11/1/2003	\$ 9.6	—	11/1/2002
NRG Energy senior notes	\$ 300.0	7.500%	6/1/2009	\$ 11.3	—	12/1/2002
NRG Energy senior notes	\$ 250.0	7.500%	6/15/2007	\$ 9.4	—	12/15/2002
NRG Energy senior notes	\$ 340.0	6.750%	7/15/2006	\$ 11.5	—	1/15/2003
NRG Energy senior debentures (NRZ Equity Units)	\$ 287.5	6.500%	5/16/2006	\$ 4.7	—	11/16/2002
	\$ 287.5	6.500%	5/16/2006	\$ 4.7	—	2/17/2003
NRG Energy senior notes	\$ 125.0	7.625%	2/1/2006	\$ 4.8	—	2/1/2003
NRG Energy 364-day corporate revolving facility	\$ 1,000.0	various	3/7/2003	\$ 7.6	—	9/30/2002
	\$ 1,000.0	various	3/7/2003	\$ 18.6	—	12/31/2002
Non-Recourse Debt (secured)						
NRG Northeast Generating LLC	\$ 320.0	8.065%	12/15/2004	\$ 5.1	\$ 53.5	12/15/2002
NRG Northeast Generating LLC	\$ 130.0	8.842%	6/15/2015	\$ 5.7	—	12/15/2002
NRG Northeast Generating LLC	\$ 300.0	9.292%	12/15/2024	\$ 13.9	—	12/15/2002
NRG South Central Generating LLC	\$ 500.0	8.962%	3/15/2016	\$ 20.2	\$ 12.8	9/16/2002
	\$ 500.0	8.962%	3/15/2016	—	\$ 12.8	3/17/2003
NRG South Central Generating LLC	\$ 300.0	9.479%	9/15/2024	\$ 14.2	—	9/16/2002

These missed payments may have also resulted in cross-defaults of numerous other non-recourse and limited recourse debt instruments of NRG Energy. In addition, the following issues have been accelerated, rendering the debt immediately due and payable: on November 6, 2002, lenders to NRG Energy accelerated the approximately \$1.1 billion of debt under the construction revolver facility; on November 21, 2002, the bond trustee, on behalf of bondholders, accelerated the approximately \$750 million of debt under the NRG South Central Generating, LLC facility; and on February 27, 2003, ABN Amro as administrative agent, accelerated the approximately \$1.0 billion corporate revolver financing facility.

Since September, the following payments were made: on December 10, 2002, \$16.0 million in interest, principal, and swap payments were made from restricted cash accounts in relation to the \$325,000,000 Series A Floating Rate Senior Secured Bonds due 2019, issued by NRG Peaker Finance Company LLC (the "Peaker financing facility"); on December 27, 2002, NRG Northeast made the \$24.7 million interest payment due on the NRG Northeast bonds but failed to make the \$53.5 million principal payment; in January 2003, the South Central Generating bondholders unilaterally withdrew \$35.6 million from a restricted revenue account relating to the September 15, 2002 interest payment and fees; and on March 17, 2003 South Central bondholders were paid \$34.4 million due in relation to the March semi-annual interest payment, but the \$12.8 million principal payment was deferred.

In addition to the payment defaults described above, prior to the downgrades many corporate guarantees and commitments of NRG Energy and its subsidiaries required that they be supported or replaced with letters

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of credit or cash collateral within 5 to 30 days of a ratings downgrade below Baa3 or BBB- by Moody's or Standard & Poor's, respectively. As a result of the downgrades on July 26 and July 29, NRG Energy received demands to post collateral aggregating approximately \$1.1 billion.

On August 19, 2002, NRG Energy executed a Collateral Call Extension Letter (CCEL) with various secured project lender groups in which the banks agreed to extend until September 13, 2002, the deadline by which NRG Energy was to post its approximately \$1.0 billion of cash collateral in connection with certain bank loan agreements.

Effective as of September 13, 2002, NRG Energy and these various secured project lenders entered into a Second Collateral Call Extension Letter (Second CCEL) that extended the deadline until November 15, 2002. Under the Second CCEL, NRG Energy agreed to submit to the lenders a comprehensive restructuring plan. NRG Energy submitted this plan on November 4, 2002 and continues to work with its lenders and advisors on an overall restructuring of its debt (see further discussion below). The November 15, 2002 deadline of the second CCEL passed without NRG Energy posting the required collateral. NRG Energy and the secured project lenders continue to work toward a plan of restructuring.

In August 2002, NRG Energy retained financial and legal restructuring advisors to assist its management in the preparation of a comprehensive financial and operational restructuring. NRG Energy and its advisors have been meeting regularly to discuss restructuring issues with an ad hoc committee of its bondholders and a steering committee of its bank lenders (the Ad Hoc Creditors Committees).

To aid in the design and implementation of a restructuring plan, in the fall of 2002, NRG Energy prepared a comprehensive business plan and forecast. Anticipating that NRG Energy's creditors will own all or substantially all of NRG Energy's equity interests after implementing the restructuring plan, any plans and efforts to integrate NRG Energy's business operations with those of Xcel Energy were terminated. Using commodity, emission and capacity prices provided by an independent energy consulting firm to develop forecasted cash flow information, management concluded that the forecasted free cash flow available to NRG Energy after servicing project level obligations will be insufficient to service recourse debt obligations at the NRG Energy corporate level. Based on that forecast, it is anticipated that NRG Energy will remain in default of the various corporate level debt obligations discussed more fully herein.

Based on this information and in consultation with Xcel Energy and its financial and legal restructuring advisors, NRG Energy prepared a comprehensive financial restructuring plan. In November 2002, NRG Energy and Xcel Energy presented the plan to the Ad Hoc Creditors Committees. The restructuring plan has served as a basis for continuing negotiations between the Ad Hoc Creditors Committees, NRG Energy and Xcel Energy related to a consensual plan of reorganization for NRG Energy. Negotiations have progressed substantially since the initial plan was presented in November. If an agreement to a consensual plan of reorganization is negotiated and NRG Energy is unable to effectuate the restructuring through an exchange offer or other non-bankruptcy mechanism, it is highly probable that such plan would be implemented through the commencement of a voluntary Chapter 11 bankruptcy proceeding. There can be no assurance that NRG Energy's creditors, including, but not limited to the Ad Hoc Committees, will agree to the terms of the consensual plan of reorganization currently being negotiated. In addition, there can be no guarantee that lenders will not seek to enforce their remedies under the various loan agreements, provided that any such attempted enforcement would be subject to the automatic stay and other relevant provisions of the bankruptcy code. The commencement of a voluntary Chapter 11 bankruptcy proceeding without a consensual plan of reorganization would increase the possibility of a prolonged bankruptcy proceeding.

On November 22, 2002, five former NRG Energy executives filed an involuntary Chapter 11 petition against NRG Energy in U.S. Bankruptcy Court for the District of Minnesota. Under provisions of federal law, NRG Energy has the full authority to continue to operate its business as if the involuntary petition had not been filed unless and until a court hearing on the validity of the involuntary petition is resolved adversely to NRG Energy. On December 16, 2002, NRG Energy responded to the involuntary petition, contesting the petitioners' claims and filing a motion to dismiss the case. On February 19, 2003, NRG Energy announced that it had reached a settlement with the petitioners. The U.S. Bankruptcy Court for the District of Minnesota will hear NRG Energy's motion to approve the settlement and dismiss the involuntary petition. Two of NRG

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Energy's creditors have objected to the motion to dismiss. There can be no assurance that the court will dismiss the involuntary petition. The Bankruptcy Court has discretion in the review and approval of the settlement agreement. There is a risk that the Bankruptcy Court may, among other things, reject the settlement agreement or enter an order for relief under Chapter 11.

On March 26, 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with holders of most of NRG Energy's long-term notes and the steering committee representing NRG's bank lenders. The settlement is subject to certain conditions, including the approval of at least a majority in dollar amount of the NRG Energy bank lenders and long-term noteholders and definitive documentation. There can be no assurance that such approvals will be obtained. The terms of the settlement call for Xcel Energy to make payments to NRG Energy over the next 13 months totaling up to \$752 million for the benefit of NRG Energy's creditors in consideration for their waiver of any existing and potential claims against Xcel Energy. Under the settlement, Xcel Energy will make the following payments: (i) \$350 million at or shortly following the consummation of a restructuring of NRG Energy's debt. It is expected this payment would be made prior to year-end 2003; (ii) \$50 million on January 1, 2004. At Xcel Energy's option, it may fill this requirement with either cash or Xcel Energy common stock or any combination thereof; and (iii) \$352 million in April 2004.

Cash Flows

Historically, NRG Energy and its subsidiaries have obtained cash from operations, issuance of debt and equity securities, borrowings under credit facilities, capital contributions from Xcel Energy, reimbursement by Xcel Energy of tax benefits pursuant to a tax sharing agreement and proceeds from non-recourse project financings. NRG Energy has used these funds to finance operations, service debt obligations, fund the acquisition, development and construction of generation facilities, finance capital expenditures and meet other cash and liquidity needs.

	2002	2001	2000
Net cash provided by operating activities (in thousands)	\$430,043	\$276,014	\$361,678

Net cash provided by operating activities increased during 2002 compared with 2001, primarily due to NRG Energy's efforts to conserve cash by deferring the payment of interest and managing its cash flows more closely. Net cash provided by operating activities decreased during 2001 compared with 2000, primarily due to adverse changes to working capital and increased undistributed equity earnings from unconsolidated affiliates. These decreases to net cash were partially offset by increases in net income after non-cash adjustments for depreciation and amortization in 2001 as compared to 2000. The adverse changes to working capital are primarily due to increases in inventory balances, accrued income taxes receivables and changes in other long term assets and liabilities, partially offset by a favorable change in other current liabilities.

	2002	2001	2000
Net cash used in investing activities (in thousands)	\$(1,681,467)	\$(4,335,641)	\$(2,204,148)

Net cash used in investing activities decreased in 2002, compared with 2001, primarily as a result of NRG Energy terminating its acquisition program due to its financial difficulties and the receipt of cash upon the sale of assets during 2002. Net cash used in investing activities increased in 2001, compared with 2000, primarily due to additional acquisitions of electric generating facilities and increased capital expenditures and project investments.

	2002	2001	2000
Net cash provided by financing activities (in thousands)	\$1,449,330	\$4,153,546	\$1,905,870

Net cash provided by financing activities during 2002 decreased, compared to 2001 due to constraints on NRG Energy's ability to access the capital markets and the cancellation and termination of construction projects reducing the need for capital. Net cash provided by financing activities during 2001 increased compared to 2000 due to the issuance of debt and equity securities to finance asset acquisitions.

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Short-term borrowing as a source of short-term funding is affected by access to reasonably priced capital markets. This varies based on financial performance and existing debt levels. If current debt levels are perceived to be at or higher than standard industry levels or those levels that can be sustained by current operating levels, access to reasonable short-term borrowings could be limited. These factors are evaluated by credit rating agencies that review NRG Energy and its subsidiary operations on an ongoing basis. As discussed above, NRG Energy's credit situation has been adversely affected by its credit ratings and is significantly limited in its access to short-term funding.

NRG Energy's operating cash flows have been adversely affected by lower operating margins as a result of low power prices since mid-2001. Seasonal variations in demand and market volatility in prices are not unusual in the independent power sector, and NRG Energy does normally experience higher margins in peak summer periods and lower margins in non-peak periods. NRG Energy has also incurred significant amounts of debt to finance its acquisitions in the past several years and the servicing of interest and principal repayments from such financing is largely dependent on domestic project cash flows. NRG Energy's management has concluded that the forecasted free cash flow available to NRG after servicing project-level obligations will be insufficient to service recourse debt obligations at NRG Energy.

For additional information on NRG Energy's short term and long term borrowing arrangements, see Item 15 — Note 13 to the Consolidated Financial Statements.

Prospective Capital Requirements

Working Capital. As of February 28, 2003, NRG Energy had cash in the following amounts:

Location and Availability	Amount
Unrestricted cash at NRG Energy	\$394.3 million
Restricted cash at U.S. subsidiaries	\$249.5 million
Restricted cash at Non-U.S. subsidiaries	\$ 17.1 million
Cash on deposit with vendors and suppliers	\$ 40.8 million
Total	\$ 701.7 million

NRG Energy anticipates that these cash resources, in addition to operating cash flows and net proceeds from asset sales, will be adequate to meet its corporate operating and capital expenditure needs going forward. However, NRG Energy does not anticipate having any cash available in 2003 to meet debt service on its corporate-level notes and loans. NRG Energy is in negotiations with certain lenders who are considering making credit available to NRG Energy and/or its subsidiaries through a debtor-in-possession facility in the event NRG Energy and/or its subsidiaries becomes a debtor under Chapter 11 of the United States Bankruptcy Code. Other than a potential debtor-in-possession facility, or entering into a negotiated recapitalization of its debt obligations, NRG Energy does not contemplate access to any new financing in 2003.

Capital Expenditures. NRG Energy's management forecasts capital expenditures, which includes refurbishments and environmental compliance, to total approximately \$475 million to \$525 million in the years 2003 through 2007. NRG Energy anticipates funding its ongoing capital requirements through committed debt facilities, operating cash flows, and existing cash. NRG Energy's capital expenditure program is subject to continuing review and modification. The timing and actual amount of expenditures may differ significantly based upon plant operating history, unexpected plant outages, changes in the regulatory environment, the availability of cash and restructuring efforts.

Project Finance. Substantially all of NRG Energy's operations are conducted by project subsidiaries and project affiliates. NRG Energy's cash flow and ability to service corporate-level indebtedness when due is dependent upon receipt of cash dividends and distributions or other transfers from NRG Energy's projects and other subsidiaries. NRG Energy has generally financed the acquisition and development of its projects under financing arrangements to be repaid solely from each of its project's cash flows, which are typically secured by the plant's physical assets and NRG Energy's equity interests in the project company. In August 2002, NRG Energy suspended substantially all of its acquisition and development activities indefinitely, pending a

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comprehensive restructuring of NRG Energy. The debt agreements of NRG Energy's subsidiaries and project affiliates generally restrict their ability to pay dividends, make distributions or otherwise transfer funds to NRG Energy. As of December 31, 2002, Loy Yang, Energy Center Kladno, LSP Energy (Batesville), NRG South Central, and NRG Northeast Generating do not currently meet the minimum debt service coverage ratios required for these projects to make payments to NRG Energy. In addition, NRG Energy's subsidiaries, including LSP Kendall, NRG McClain, NRG Mid-Atlantic, NRG South Central and NRG Northeast Generating are in default on their various debt instruments, resulting in dividend payment restrictions.

Off Balance-Sheet Items

As of December 31, 2002, NRG Energy does not have any significant relationships with structured finance or special purpose entities that provide liquidity, financing or incremental market risk or credit risk.

In March 2000, an NRG Energy sponsored non-consolidated pass through trust issued \$250 million of 8.70% certificates due March 15, 2005. Each certificate represents a fractional undivided beneficial interest in the assets of the trust. Interest is payable on the certificates semi-annually on March 15 and September 15 of each year through 2005. The sole assets of the trust consist of £160 million principal amount 7.97% Reset Senior Notes due March 15, 2020 issued by NRG Energy. Interest is payable semi-annually on the Reset Senior Notes on March 15 and September 15 through March 15, 2005, and then at intervals and interest rates established in a remarketing process. If the Reset Senior Notes are not remarketed on March 15, 2005, they must be mandatorily redeemed by NRG Energy on such date.

NRG Energy has numerous investments of generally less than 50% interests in energy and energy related entities that are accounted for under the equity method of accounting as disclosed in Item 15 — Note 10 to the Consolidated Financial Statements. NRG Energy's pro-rata share of non-recourse debt held by unconsolidated affiliates was approximately \$1.0 billion as of December 31, 2002. In the normal course of business NRG Energy may be asked to loan funds to these entities on both a long and short-term basis. Such transactions are generally accounted for as accounts payables and receivables to/from affiliates and notes receivables from affiliates and if appropriate, bear market-based interest rates. For additional information regarding amounts accounted for as notes receivables to affiliates see Item 15 — Note 12 to the Consolidated Financial Statements.

Contractual Obligations and Commercial Commitments

NRG Energy has a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to its capital expenditure programs. The following is a summarized table of contractual obligations. See additional discussion in Item 15 — Notes 13, 14 and 22 to the Consolidated Financial Statements.

Payments Due by Period as of December 31, 2002

Contractual Cash Obligations	Total	Short Term	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Long term debt	\$8,385,867	\$7,193,237	\$147,162	\$145,761	\$899,707
Capital lease obligations	574,531	26,855	53,338	53,012	441,326
Operating leases	80,556	11,514	21,067	18,030	29,945
Total contractual cash obligations	\$9,040,954	\$7,231,606	\$221,567	\$216,803	\$1,370,978

Amount of Commitment Expiration per Period as of December 31, 2002

Other Commercial Commitments	Total Amounts Committed	Short Term	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Lines of credit	\$ 1,000,000	\$ 1,000,000	—	—	—
Stand by letters of credit	110,677	110,677	—	—	—
Guarantees	1,587,022	992,280	94,467	210,941	289,334
Total commercial commitments	\$2,697,699	\$2,102,957	\$94,467	\$210,941	\$289,334

Interdependent Relationships

NRG Energy does not have any significant interdependent relationships. Since it is an indirect wholly owned subsidiary of Xcel Energy there are certain related party transactions that take place in the normal course of business. For additional information regarding NRG Energy's related party transactions see Item 15 — Note 11 to the Consolidated Financial Statements and Item 13 — Certain Relationships and Related Transactions.

Environmental Matters

Domestic Environmental Regulatory Matters

The construction and operation of power projects are subject to stringent environmental and safety protection and land use laws and regulation in the United States. These laws and regulations generally require lengthy and complex processes to obtain licenses, permits and approvals from federal, state and local agencies. If such laws and regulations become more stringent and NRG Energy's facilities are not exempted from coverage, NRG Energy could be required to make extensive modifications to further reduce potential environmental impacts. Also, NRG Energy could be held responsible under environmental and safety laws for the cleanup of pollutant releases at its facilities or at off-site locations where it has sent wastes.

NRG Energy and its subsidiaries strive to exceed the standards of compliance with applicable environmental and safety regulations. Nonetheless, NRG Energy expects that future liability under or compliance with environmental and safety requirements could have a material effect on its operations or competitive position. It is not possible at this time to determine when or to what extent additional facilities or modifications of existing or planned facilities will be required as a result of possible changes to environmental and safety regulations, regulator interpretations or enforcement policies. In general, the effect of future laws or regulations is expected to require the addition of pollution control equipment or the imposition of restrictions on NRG Energy's operations.

NRG Energy establishes accruals where reasonable estimates of probable environmental and safety liabilities are possible. NRG Energy adjusts the accruals when new remediation responsibilities are discovered and probable costs become estimable, or when current remediation estimates are adjusted to reflect new information. For more information on Environmental Matters see Item 15 — Note 22 to the Consolidated Financial Statements.

U.S. Federal Regulatory Initiatives

Several federal regulatory and legislative initiatives are being undertaken in the U.S. to further limit and control pollutant emissions from fossil-fuel-fired combustion units. Although the exact impact of these initiatives is not known at this time, all of NRG Energy's power plants will be affected in some manner by the expected changes in federal environmental laws and regulations. In Congress, legislation has been proposed that would impose annual caps on U.S. power plant emissions of nitrogen oxides (NO_x), sulfur dioxide (SO₂), mercury, and, in some instances, carbon dioxide (CO₂). NRG Energy is currently participating in the debates around such legislative proposals as a member of the Electric Power Supply Association. Federal legislation relating to NO_x, SO₂ and mercury is likely in the next two years. The prospects for passage of the legislation

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relating to CO₂ is more uncertain. The U.S. Environmental Protection Agency (USEPA) is scheduled to propose in December 2003 and finalize in December 2004 rules governing mercury emissions from power plants. In support of this schedule, USEPA and critical stakeholders, some of which are aligned with NRG Energy's interests, are presently conducting a thorough review of existing power plant mercury emissions data. Since these mercury rules have not yet been proposed and legislation has not yet supplanted them, it is not possible for NRG Energy to determine the extent to which the rules will affect its domestic operations.

USEPA has finalized federal rules governing ozone season NO_x emissions across the eastern United States. These ozone season rules will be implemented in two phases. The first phase of restrictions will occur in the Ozone Transport Commission region during the 2003 and subsequent ozone seasons; all of NRG Energy's existing, wholly owned generating units in the Northeast and Mid-Atlantic regions are included in this part of the program. The second phase of NO_x reductions will extend to states within the Ozone Transport Assessment Group (OTAG) region and restrict 2004 and subsequent ozone season NO_x emissions in most states east of the Mississippi River. These rules require one NO_x allowance to be held for each ton of NO_x emitted from any fossil fuel-fired stationary boiler, combustion turbine, or combined cycle system that (i) at any time on or after January 1, 1995, served a generator with a nameplate capacity greater than 25 MWe and sold any amount of electricity or (ii) has a maximum design heat input greater than 250 mmBtu/hr. NRG Energy's facilities that are subject to this rule in the Northeast and Mid-Atlantic Regions have been allocated NO_x emissions allowances, but NRG Energy expects that those allowances may not be sufficient for the anticipated operation of these facilities. Where insufficient allowances exist, NRG Energy must purchase NO_x allowances from sources holding excess allowances. The need to purchase these additional NO_x allowances could have a material effect on NRG Energy's operations in these regions.

During the first quarter of 2002, USEPA proposed new rules governing cooling water intake structures at existing power facilities. These rules are scheduled to be finalized by February 16, 2004. The proposed rules specify certain location, design, construction, and capacity standards for cooling water intake structures at existing power plants using the largest amounts of cooling water. These rules will require implementation of the best technology available for minimizing adverse environmental impacts unless a facility shows that such standards would result in very high costs or little environmental benefit. The proposed rules would require NRG Energy facilities that withdraw water in amounts greater than 50 million gallons per day to submit with wastewater permit applications certain surveys, plans, operational measures, and restoration measures that combined would act to minimize adverse environmental impacts. These anticipated cooling water intake structure rules could have a material effect on NRG Energy's operations.

Other Federal initiatives that could affect NRG Energy and that would govern regional haze, fine particulate matter, and ozone are underway, but under extended compliance implementation timeframes ranging from 2009 and beyond.

Regional U.S. Regulatory Initiatives

West Coast Region

The El Segundo and Long Beach Generating Stations are both regulated by the South Coast Air Quality Management District's (SCAQMD) Regional Clean Air Incentives Market (RECLAIM) program. This program, which regulates NO_x emissions in the Los Angeles area, was amended on May 11, 2001, and mandated major changes with respect to air emissions control at power generation facilities in southern California. New RECLAIM Rule 2009 requires that all existing power generation facilities meet Best Available Retrofit Control Technology (BARCT) for NO_x emissions from all utility boilers by January 1, 2003, and for all peaking units by January 1, 2004. Under the new rule, existing power generation facilities were required to submit compliance plans by September 1, 2001, listing how each unit at the stations would meet BARCT by the deadlines. El Segundo's compliance plan did not propose additional NO_x controls to meet BARCT since Units 3 & 4 are already equipped with acceptable SCR technology (first installed on Unit 4 in 1995 and on Unit 3 in 2001). Further, NRG Energy is planning to decommission Units 1 & 2 so that it can build a new 621 MW combined cycle plant. SCAQMD approved the El Segundo Rule 2009 Compliance Plan on October 17, 2002, indicating that the SCRs on Units 3 & 4 meet BARCT and requiring

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that Units 1 & 2 be retired on or before December 31, 2002. SCAQMD approved the Long Beach Generating Station Rule 2009 Compliance Plan on April 25, 2002, which proposed modifications to the Long Beach NO_x control system by December 31, 2002, and specified a new NO_x emission concentration limit of 16.6 parts per million. The Long Beach plant completed all control system modifications and demonstrated compliance with 16.6 parts per million limit before the December 31, 2002 deadline. Therefore, all Long Beach and El Segundo units have met the Rule 2009 BARCT requirement, and NRG Energy does not at this time anticipate additional material capital expenditures associated with the amended RECLAIM rules.

Eastern Region

Final rules implementing changes in air regulations in the states of Massachusetts and Connecticut were promulgated in 2000. The Connecticut rules required that existing facilities reduce their emissions of SO₂ in two steps, the first of which took place on January 1, 2002. The second SO₂ milestone will occur on January 1, 2003. The NRG Energy plants in Connecticut have operated in compliance with the first phase rules and are now operating in compliance with the second phase rules. Connecticut's rules governing emissions of NO_x were also modified in 2000 to restrict the average, non-ozone season NO_x emission rate to 0.15 pound per million Btu heat input. NRG Energy plans to comply with the new NO_x rules, in part, through selective firing of natural gas, use of selective non-catalytic reduction (SNCR) technology presently installed at its Norwalk Harbor and Middletown Power Stations, improved combustion controls, use of emission reduction credits, and purchase of allowances. In 2002, the Connecticut legislature passed a law further tightening air emission standards by eliminating in-state emissions credit trading subsequent to January 1, 2005 as a means of meeting Department of Environmental Protection (DEP) regulatory standards for SO₂ emissions from older power plants. The termination of SO₂ emissions trading in Connecticut by 2005 could have a material effect on NRG Energy's operations in that state.

The new Massachusetts rules set forth schedules under which six existing coal-fired power plants in-state were required to meet stringent emission limits for NO_x, SO₂, mercury, and CO₂. The state has reserved the issue of control of carbon monoxide and particulate matter emissions for future consideration. On February 25th, 2003, NRG Energy received from the Massachusetts Department of Environmental Protection (MADEP) a permit to install natural gas reburn technology to meet the NO_x and SO₂ limits specified in the new rule at its Somerset Generating Station. NRG Energy is projected to incur total capital expenditures of approximately \$5.4 million to implement the reburn technology at the Somerset Station, of which about \$3.0 million remains to be spent during 2003. MADEP is evaluating the technological and economic feasibility of controlling and eliminating emissions of mercury from the combustion of solid fossil fuel in Massachusetts. Within six months of completing the feasibility evaluation, MADEP must propose emission standards for mercury, with a proposed compliance date of October 1, 2006. NRG Energy believes it can comply with any future mercury reductions required by the rules through achieving early reductions of mercury via early implementation of the natural gas reburn technology and with its January 1, 2010 commitment to shutdown Somerset Station's existing boiler. NRG Energy is still considering its options with respect to how it will address MADEP's CO₂ emission standards. Such options include using early reductions of CO₂ achieved through early implementation of the natural gas reburn technology or by filing a legal challenge with respect to MADEP's legal authority to regulate CO₂ emissions.

New York proposed rules reducing allowable SO₂ and NO_x emissions from large, fossil-fuel-fired combustion units in New York State on February 20, 2002 (6NYCRR Part 237: Acid Deposition Reduction NO_x Budget Trading Program and Part 238: Acid Deposition Reduction SO₂ Budget Trading Program). As proposed, these rules would affect every NRG Energy generator in-state. NRG Energy provided testimony on the proposed rules in public hearings conducted in Buffalo and Albany on April 4, 2002, and May 20, 2002, respectively. In addition, NRG Energy filed written comments on the proposed rules on May 28, 2002. NRG Energy's comments focused on (i) material changes in electric markets that had occurred since the conduct of studies upon which the Department of Environmental Conservation (DEC) had based their proposal, (ii) the need to increase the quantity of upwind allowances for use in offsetting in-state emissions, and (iii) the disproportionately minimal reduction in in-state acid deposition that could be expected from the significant emissions reductions proposed. NRG Energy has received a pre-publication version of the rules that will be

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considered by the New York State DEC's Environmental Board at the Board's March 26, 2003 meeting. Indications are that the rules will provide for increased use of upwind SO₂ and NO_x reductions and will continue to allow for the use of early emission reductions. NRG Energy's strategy for complying with the new rules will be to generate early reductions of SO₂ and NO_x associated with fuel switching and use such reductions to extend the timeframe for implementing technological controls, which could include the addition of flue gas desulfurization (FGD) and selective catalytic reduction (SCR) equipment. NRG Energy anticipates that it could incur capital expenditures up to \$300 million in the 2008 through 2012 timeframe to implement upgrades and modifications to its plants in New York to meet new state and federal regulatory requirements if NRG cannot address such requirements through use of compliant fuels and/or plantwide applicability limits.

While no material impending rule changes affecting NRG Energy's existing facilities have been formally proposed, Delaware is considering in 2003 whether or not to develop Maximum Achievable Control Technology (MACT) standards for mercury. In support of this effort, the State is beginning to test large combustion sources for mercury emissions. In addition, the State is establishing Total Maximum Daily Loading (TMDL) standards for mercury in its watersheds. NRG is participating as a stakeholder in such policy-making efforts along with the Governor's Energy Task Force, legislators and the Delaware Department of Natural Resources and Environmental Control (DNREC) to ensure that any rules promulgated adequately consider impacts on NRG's in-state sources.

Central Region

The Louisiana Department of Environmental Quality has promulgated State Implementation Plan revisions to bring the Baton Rouge ozone non-attainment area into compliance with National Ambient Air Quality Standards. NRG Energy participated in development of the revisions, which require the reduction of NO_x emissions at the gas-fired Big Cajun I Power Station and coal-fired Big Cajun II Power Station to 0.1 pounds NO_x per million Btu heat input and 0.21 pounds NO_x per million Btu heat input, respectively. This revision of the Louisiana air rules would appear to constitute a change-in-law covered by agreement between Louisiana Generating LLC and the electric cooperatives allowing the costs of added combustion controls to be passed through to the cooperatives. The capital cost of combustion controls required at the Big Cajun II Generating Station to meet the State's NO_x regulations will total about \$10.0 million each for Units 1 & 2. Unit 3 has already made such changes.

Domestic Site Remediation Matters

Under various federal, state and local environmental laws and regulations, a current or previous owner or operator of any facility, including an electric generating facility, may be required to investigate and remediate releases or threatened releases of hazardous or toxic substances or petroleum products located at the facility, and may be held liable to a governmental entity or to third parties for property damage, personal injury and investigation and remediation costs incurred by the party in connection with any releases or threatened releases. These laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, impose liability without regard to whether the owner knew of or caused the presence of the hazardous substances, and courts have interpreted liability under such laws to be strict (without fault) and joint and several. The cost of investigation, remediation or removal of any hazardous or toxic substances or petroleum products could be substantial. Although NRG Energy has been involved in on-site contamination matters, to date, NRG Energy has not been named as a potentially responsible party with respect to any off-site waste disposal matter.

West Coast Region

The Asset Purchase Agreements for the Long Beach, El Segundo, Encina, and San Diego gas turbine generating facilities provide that Southern California Edison and San Diego Gas & Electric retain liability and indemnify NRG Energy for existing soil and groundwater contamination that exceeds remedial thresholds in place at the time of closing. NRG Energy and its business partner conducted Phase I and Phase II Environmental Site Assessments at each of these sites for purposes of identifying such existing contamination

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and provided the results to the sellers. Southern California Edison and San Diego Gas & Electric have agreed to address contamination identified by these studies and are undertaking corrective action at the Encina and San Diego gas turbine generating sites. Spills and releases of various substances have occurred at these sites since establishing the historical baseline, all but one of which has been remediated in accordance with existing laws.

A recent oil leak in underground piping at the El Segundo Generating Station contaminated soils adjacent to and underneath the Unit 1 powerhouse. NRG Energy excavated and disposed of contaminated soils that could be removed in accordance with existing laws. NRG Energy filed a request with the Regional Water Quality Control Board to allow contaminated soils to remain underneath the building foundation until the building is demolished.

Eastern Region

Coal ash is produced as a by-product of coal combustion at the Dunkirk, Huntley, and Somerset Generating Stations. NRG Energy attempts to direct its coal ash to beneficial uses. Even so, significant amounts of ash are landfilled at on and off-site locations. At Dunkirk and Huntley, ash is disposed at landfills owned and operated by NRG Energy. No material liabilities outside the costs associated with closure, post-closure care and monitoring are expected at these facilities. NRG Energy maintains financial assurance to cover costs associated with closure, post-closure care and monitoring activities. In the past, NRG Energy has provided financial assurance via financial test and corporate guarantee. NRG Energy must re-establish financial assurance via an instrument requiring complete collateralization of closure and post-closure-related costs, currently estimated at approximately \$5.8 million. NRG Energy is required to provide an alternative instrument to provide such financial assurance on or before April 30, 2003.

NRG must also maintain financial assurance for closing interim status RCRA facilities at the Devon, Middletown, Montville and Norwalk Harbor Generating Stations. Previously, NRG Energy has provided financial assurance via financial test. NRG Energy must re-establish financial assurance via an instrument requiring complete collateralization of closure and post-closure-related costs. NRG Energy is required to provide an alternative instrument to provide such financial assurance on or before April 30, 2003.

Historical clean-up liabilities were inherited as a part of acquiring the Somerset, Devon, Middletown, Montville, Norwalk Harbor, Arthur Kill and Astoria Generating Stations. NRG Energy has recently satisfied clean-up obligations associated with the Ledge Road property (inherited as part of the Somerset acquisition). Site contamination liabilities arising under the Connecticut Transfer Act at the Devon, Middletown, Montville and Norwalk Harbor Stations have been identified and are currently being refined as part of on-going site investigations. NRG Energy does not expect to incur material costs associated with completing the investigations at these Stations or future work to cover and monitor landfill areas pursuant to the Connecticut requirements. Remedial liabilities at the Arthur Kill Generating Station have been established in discussions between NRG Energy and the New York State DEC and are expected to cost on the order of \$1.0 million; for contingency purposes, NRG Energy has budgeted \$2 million to complete its Arthur Kill remedial obligations. Remedial investigations are on-going at the Astoria Generating Station. At this time, NRG Energy's long term cleanup liability at this site is not expected to exceed \$2.5 million; for contingency purposes, NRG Energy has budgeted \$4.3 million to complete its Astoria remedial obligations.

NRG Energy is responsible for the costs associated with closure, post-closure care and monitoring of the ash landfill owned and operated by NRG Energy on the site of the Indian River Generating Station. No material liabilities outside such costs are expected. Financial assurance to provide for closure and post-closure-related costs is currently maintained by a trust fund collateralized in the amount of approximately \$6.6 million.

Central Region

Liabilities associated with closure, post-closure care and monitoring of the ash ponds owned and operated on site at the Big Cajun II Generating Station are addressed through the use of a trust fund maintained by NRG Energy (one of the instruments allowed by the Louisiana Department of Environmental Quality for providing financial assurance for expenses associated with closure and post-closure care of the ponds). The

current value of the trust fund is approximately \$4.5 million and NRG Energy is making annual payments to the fund in the amount of about \$116,000.

International Environmental Matters

Most of the foreign countries in which NRG Energy owns or may acquire or develop independent power projects have environmental and safety laws or regulations relating to the ownership or operation of electric power generation facilities. These laws and regulations are typically significant for independent power producers because they are still changing and evolving. In particular, NRG Energy's international power generation facilities will likely be affected by evolving emissions limitations and operational requirements imposed by the Kyoto Protocol and country-based restrictions pertaining to global climate change concerns.

NRG Energy retains appropriate advisors in foreign countries and seeks to design its international development and acquisition strategy to comply with and take advantage of opportunities presented by each country's environmental and safety laws and regulations. There can be no assurance that changes in such laws or regulations will not adversely effect NRG Energy's international operations.

Australia

The most significant environmental issue for the Australian NRG businesses is the response to global climate change. Climate change issues are considered a long-term issue (e.g., 2010 and beyond), and the Federal Government's response to date has included a number of initiatives, all of which have had no impact or minimal impact on NRG Energy's current operations. The Australian Government has stated that Australia will achieve its Kyoto target of 108% of 1990 levels for the 2008 to 2012 reporting period but that it will not ratify the Kyoto Protocol. Each Australian State Government is considering implementing a number of climate change initiatives that will vary considerably state to state. NRG Energy currently expects that climate change initiatives will not have a material impact on NRG Energy's businesses in Australia.

MIBRAG/ Schkopau, Germany

CO₂ emissions trading is supposed to start in 2005, but NRG Energy cannot quantify the possible effect of this trading on its operations in Germany at this time because implementation details are still being negotiated among businesses, lobbyists, and the regulatory authorities. Fundamental issues such as "grandfathering" existing plants or availability of credits for plants previously closed or upgraded are still unsettled. Given the uncertainty regarding the emissions trading program, NRG Energy cannot estimate at this time the possible effect such requirements would have on its future operations.

Proposed changes in sections 13 and 17 of the German Emission Control Directive are expected to tighten emission limits for plants firing conventional fuels, and for those co-firing waste products. As with CO₂ emissions trading, these changes are currently being vigorously debated with issues such as exemptions based on size or purpose of plants and "grandfathering" remaining undecided.

The European Union's Groundwater Directive and Mine Wastewater Management Directive are in the rule-making stage with the final outcome still under debate. Given the uncertainty regarding the possible outcome of the on-going debate on these directives, NRG Energy cannot quantify at this time the possible effect such requirements would have on its future coal mining operations in Germany.

UK

NRG Energy's Enfield Generating Station uses state-of-the-art combined cycle technology and is set to fire natural gas as its primary fuel. Currently the facility complies with all conditions in its environmental permits and its operation is not under challenge by any governmental or non-governmental parties.

India

NRG Energy's Kondapalli Generating Station is in compliance with its environmental permits, is not being challenged by any parties on environmental grounds, has incurred no fines or penalties associated with

violations of operating conditions, and there are no capital costs anticipated for maintaining the Station in compliance with existing consents or rules. To NRG Energy's knowledge, no regulatory proposals that would materially affect the Station's operation are pending or proposed.

Recent Accounting Developments

In June 2001, FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations."* This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Upon initial recognition of a liability for an asset retirement obligation, an entity shall capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. NRG Energy has not completed its analysis of SFAS No. 143. NRG Energy will complete its analysis in 2003 and in accordance with the accounting guidance, be required to restate prior quarterly statements to the extent the impact of the adoption is material.

In April 2002, the FASB issued SFAS No. 145, *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections"*, that supersedes previous guidance for the reporting of gains and losses from extinguishment of debt and accounting for leases, among other things.

SFAS No. 145 requires that only gains and losses from the extinguishment of debt that meet the requirements for classification as "Extraordinary Items," as prescribed in Accounting Practices Board Opinion No. 30, should be disclosed as such in the financial statements. Previous guidance required all gains and losses from the extinguishment of debt to be classified as "Extraordinary Items." This portion of SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with restatement of prior periods required.

In addition, SFAS No. 145 amends SFAS No. 13, *"Accounting for Leases"*, as it relates to accounting by a lessee for certain lease modifications. Under SFAS No. 13, if a capital lease is modified in such a way that the change gives rise to a new agreement classified as an operating lease, the assets and obligation are removed, a gain or loss is recognized and the new lease is accounted for as an operating lease. Under SFAS No. 145, capital leases that are modified so the resulting lease agreement is classified as an operating lease are to be accounted for under the sale-leaseback provisions of SFAS No. 98, *"Accounting for Leases"*. These provisions of SFAS No. 145 are effective for transactions occurring after May 15, 2002.

SFAS No. 145 will be applied as required. Adoption of SFAS No. 145 is not expected to have a material impact on NRG Energy.

In June 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities,"* (SFAS No. 146), SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."* SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets."* The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. SFAS No. 146 will be applied as required.

In December 2002, FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123.* This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of

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SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002 and for interim periods beginning after December 15, 2002.

In November 2002, The FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for the obligations the guarantor has undertaken in issuing the guarantee.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN No. 46). FIN No. 46 requires an enterprise's consolidated financial statements to include subsidiaries in which the enterprise has a controlling interest. Historically, that requirement has been applied to subsidiaries in which an enterprise has a majority voting interest, but in many circumstances the enterprise's consolidated financial statements do not include the consolidation of variable interest entities with which it has similar relationships but no majority voting interest. Under FIN No. 46 the voting interest approach is not effective in identifying controlling financial interest. The new rule requires that for entities to be consolidated that those assets be initially recorded at their carrying amounts at the date the requirements of the new rule first apply. If determining carrying amounts as required is impractical, then the assets are to be measured at fair value the first date the new rule applies. Any difference between the net amount of any previously recognized interest in the newly consolidated entity should be recognized as the cumulative effect of an accounting change. FIN No. 46 becomes effective in the third quarter of 2003. NRG Energy is currently evaluating this standard and is presently unable to determine its impact.

California

NRG Energy's California generation assets include a 50% interest in the West Coast Power partnership with Dynegy.

In March 2001, the California Power Exchange (PX) filed for bankruptcy under Chapter 11 of the Bankruptcy Code, and in April 2001, the Pacific Gas & Electric Company (PG&E) also filed for bankruptcy under Chapter 11. PG&E's filing delayed collection of receivables owed to the Crockett facility. In September 2001, PG&E filed a proposed plan of reorganization. Under the terms of the proposed plan, which is subject to challenge by interested parties, unsecured creditors such as NRG Energy's California affiliates would receive 60% of the amounts owed upon approval of the plan. The remaining 40% would be paid in negotiable debt with terms from 10 to 30 years. The California PX's ability to repay its debt is dependent on the extent to which it receives payments from PG&E and Southern California Edison Company (SCE). During the fourth quarter of 2002, West Coast Power recorded an approximately \$117.0 million charge to write-off the remaining amounts owed to it by the California PX and ISO. NRG Energy's share of this charge was approximately \$58.5 million (pre-tax).

Certain Trading Activities

The tables below disclose the trading activities that include non-exchange traded contracts accounted for at fair value. Specifically, these tables disaggregate realized and unrealized changes in fair value; identifies changes in fair value attributable to changes in valuation techniques; disaggregates estimated fair values at December 31, 2002 based on whether fair values are determined by quoted market prices or more subjective means; and indicates the maturities of contracts at December 31, 2002.

Trading Activity (Gains/(Losses), in thousands)

Fair Value of contracts outstanding at the beginning of the period	\$ 72,236
Contracts realized or otherwise settled during the period	(119,061)
Other changes in fair values	77,465
	<hr/>
Fair value of contracts outstanding at the end of the period	\$ 30,640
	<hr/>

Sources of Fair Value (Gains/(Losses), in thousands)

	Fair Value of Contracts at Period-End				Total Fair Value
	Maturity Less than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in excess of 5 Years	
Prices actively quoted	\$ 5,825	\$ (7,558)	—	\$ (1,908)	\$ (3,641)
Prices based on models & other valuation methods	\$61,300	\$52,560	\$(22,977)	\$(56,602)	\$34,281
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$67,125	\$45,002	\$(22,977)	\$(58,510)	\$30,640
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Item 7A — Quantitative and Qualitative Disclosures About Market Risk

NRG Energy uses a variety of financial instruments to manage its exposure to fluctuations in foreign currency exchange rates on its international project cash flows, interest rates on its cost of borrowing and energy and energy related commodities prices.

Currency Exchange Risk

NRG Energy is also subject to currency risks associated with foreign denominated distributions from international investments. In the normal course of business, NRG Energy receives distributions denominated in Australian Dollar, British Pound and Euro. Upon completion of the Itiquira plant in Brazil, NRG Energy is also subject to currency risk with the Brazilian Real. NRG Energy engages in a strategy of hedging foreign denominated cash flows through a program of matching currency inflows and outflows, and to the extent required, fixing the U.S. Dollar equivalent of net foreign denominated distributions with currency forward and swap agreements with highly credit worthy financial institutions.

NRG Energy has £160 million in long-term debt due 2020 which is subject to market fluctuations.

As of December 31, 2002, NRG Energy had two foreign currency exchange contracts with notional amounts of \$3.0 million. If the contracts had been discontinued on December 31, 2002, NRG Energy would have owed the counter-parties approximately \$0.3 million.

Interest Rate Risk

NRG Energy and its subsidiaries are exposed to fluctuations in interest rates when entering into variable rate debt obligations to fund certain power projects. Exposure to interest rate fluctuations may be mitigated by entering into derivative instruments known as interest rate swaps, caps, collars and put or call options. These contracts reduce exposure to interest rate volatility and result in primarily fixed rate debt obligations when taking into account the combination of the variable rate debt and the interest rate derivative instrument. NRG Energy's risk management policy allows the company to reduce interest rate exposure from variable rate debt obligations.

During 2002, as a result of the various defaults under certain loan agreements, NRG Energy's counter-parties have terminated interest rate swaps with NRG Energy, Brazos Valley LP and NRG Finance Company I LLC. Until NRG Energy successfully restructures outstanding debt and returns to credit quality, NRG Energy will not seek to manage interest rate risk through the use of financial derivatives.

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As of December 31, 2002, NRG Energy had various interest rate swap agreements with notional amounts totaling approximately \$1.7 billion. If the swaps had been discontinued on December 31, 2002, NRG Energy would have owed the counter parties approximately \$41.0 million. Based on the investment grade rating of the counter parties, NRG Energy believes that its exposure to credit risk due to nonperformance by the counter-parties to its hedging contracts is insignificant.

NRG Energy and its subsidiaries have both long and short-term debt instruments that subject it to the risk of loss associated with movements in market interest rates. As of December 31, 2002, a 100 basis point change in the benchmark rate on NRG Energy's variable rate debt would impact net income by approximately \$39.3 million. As of December 31, 2001, a 100 basis point change in the benchmark rate on NRG Energy's variable rate debt would have impacted net income by approximately \$16.6 million.

Commodity Price Risk

NRG Energy is exposed to commodity price variability in electricity, emission allowances and natural gas, oil and coal used to meet fuel requirements. To manage earnings volatility associated with these commodity price risks, NRG Energy enters into financial instruments, which may take the form of fixed price, floating price or indexed sales or purchases, and options, such as puts, calls, basis transactions and swaps.

NRG Energy utilizes an undiversified "Value-at-Risk" (VAR) model to estimate a maximum potential loss in the fair value of its commodity portfolio including generation assets, load obligations and bilateral physical and financial transactions. The key assumptions for the NRG Energy VAR model include (1) a lognormal distribution of price returns (2) three day holding period and (3) a 95% confidence interval. The volatility estimate is based on the implied volatility for at the money call options. This model encompasses the following generating regions: Entergy, NEPOOL, NYPP, PJM, WSCC, SPP and Main.

The estimated maximum potential three-day loss in fair value of its commodity portfolio, calculated using the VAR model is as follows:

	(In millions)
Year end December 31, 2002	\$ 118.6
Average	76.2
High	124.4
Low	42.0
Year end December 31, 2001	71.7
Average	78.8
High	126.6
Low	58.6
Year end December 31, 2000	116.0
Average	80.0
High	125.0
Low	50.0

NRG Power Marketing has risk management policies in place to measure and limit market and credit risk associated with NRG's power marketing activities. These policies do not permit speculative or directional trading. An independent department within NRG Power Marketing is responsible for the enforcement of such policies. NRG Energy is currently in the process of reviewing and revising these policies to reflect changes in industry dynamics and the NRG Energy reorganization.

Credit Risk

NRG Energy is exposed to credit risk in its risk management activities. Credit risk relates to the risk of loss resulting from the nonperformance by a counter party of its contractual obligations. NRG Energy actively manages its counter-party credit risk. NRG Energy has an established credit policy in place to minimize

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overall credit risk. Important elements of this policy include ongoing financial reviews of all counter-parties, established credit limits, as well as monitoring, managing, and mitigating credit exposure.

Item 8 — Financial Statements and Supplementary Data

The financial statements and schedules are listed in Part IV, Item 15 of this Form 10-K.

Item 9 — Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

PART III

Item 10 — Directors and Executive Officers of the Registrant

The name, age and title of each of the executive officers and directors of NRG Energy as of March 1, 2003 are as set forth below:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Richard C. Kelly	57	Director, President-Enterprises Xcel Energy Inc., NRG President and Chief Operating Officer
Wayne H. Brunetti	61	Director, President and CEO Xcel Energy Inc., NRG Chairman and Chief Executive Officer
Gary R. Johnson	56	Director, Vice President and General Counsel Xcel Energy Inc.
William T. Pieper	37	Vice President and Controller
Scott J. Davido	41	Senior Vice President, General Counsel and Corporate Secretary
Ershel C. Redd Jr.	55	Senior Vice President, Commercial Operations
George P. Schaefer	52	Vice President and Treasurer
John P. Brewster	49	Vice President Worldwide Operations

Richard C. Kelly has been a Director of NRG Energy since August 2000. During 2002, Mr. Kelly became the President and Chief Operating Officer of NRG Energy. Mr. Kelly has been President — Enterprises of Xcel Energy since August 2000, and was formerly Executive Vice President of financial and support services and Chief Financial Officer for New Century Energy from 1997 to August 2000. Before that, Mr. Kelly was Senior Vice President of Finance, Treasurer and Chief Financial Officer for Public Service Company of Colorado, which he joined in 1968.

Wayne H. Brunetti has been a Director of NRG Energy since August 2000. During August 2002, Mr. Brunetti became the acting CEO of NRG Energy. Mr. Brunetti has been President and CEO of Xcel Energy Inc. since August 2000. Prior to assuming his current position in August 2000, Mr. Brunetti was Vice Chairman, President and Chief Executive Officer of New Century Energy. Mr. Brunetti was Vice Chairman, President and Chief Operating Officer of Public Service Company of Colorado before it merged with Southwestern Public Service Company to form New Century Energy. Mr. Brunetti joined Public Service Company of Colorado as President and Director officer in 1994.

Gary R. Johnson has been a Director of NRG Energy since 1993 and has been Vice President and General Counsel of Xcel Energy since August 2000. Mr. Johnson served as Vice President and General Counsel of Northern States Power from November 1991 to August 2000. Prior to November 1991, Mr. Johnson was Vice President-Law of Northern States Power from January 1989, acting Vice President from September 1988 and Director of Law from February 1987, and he has served in various management positions with Northern States Power during the last 20 years.

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William T. Pieper has been Vice President and Controller of NRG Energy since June 2001. He has also held the positions of Controller, Assistant Controller and Manager of International Accounting since joining NRG Energy in March 1995. Prior to joining NRG Energy, Mr. Pieper practiced as a Certified Public Accountant for six years with the firm of KPMG.

Scott J. Davido has been Senior Vice President, General Counsel at NRG Energy since October 2002. He served as Executive Vice President, Chief Financial Officer, Treasurer and Secretary of The Elder-Beerman Stores Corp. from 1999 to May 2002 and Senior Vice President, General Counsel from 1997 to 1999. Mr. Davido was a Partner, Business Practice Group with Jones, Day, Reavis & Pogue in Pittsburgh, Pennsylvania from January 1997 to December 1997 and an Associate, Business Practice Group from September 1987 to December 1996.

Ershel C. Redd, Jr. has been Senior Vice President, Commercial Operations at NRG since October 2002 and had been advising NRG Energy's senior management group with regards to power marketing operations since June 2002. Previously, Mr. Redd served as Vice President of Business Development for Xcel Energy Markets, Xcel Energy from August 2000 to October 2002; Prior to that, he served as Vice President of e Prime, Inc., Xcel Energy from July 1999 to August 15, 2000. Mr. Redd served as President & COO of Texas Ohio Gas, Inc., NCE, from January 1997 to July 1999. He has more than 30 years of management experience in multiple areas of the energy industry.

George P. Schaefer has been Treasurer of NRG Energy since December 2002. Prior to December 2002, Mr. Schaefer served as Senior Vice President, Finance and Treasurer for PSEG Global, Inc. for one year, Vice President of Enron North America from 2000 to 2001 and Vice President and Treasurer of Reliant Energy International from 1995 to 2000. Mr. Schaefer was the Vice President, Business Development for Entergy Power Group from 1993 through 1995 and held the Senior Vice President, Structured Finance Group position with General Electric Capital Corporation from 1982 through 1993.

John P. Brewster has been Vice President, Worldwide Operations of NRG Energy since June 2002. From July 2001 through June 2002, Mr. Brewster served as Vice President, North American Operations of NRG Energy. From April 2000 through July 2001, he served as Vice President of Production for NRG Louisiana Generating Inc. From April 1995 to April 2000, Mr. Brewster served as Vice President of Production for Cajun Electric Power Cooperative.

There are no family relationships between any of NRG Energy's officers and directors. Each of NRG Energy's officers serves at the discretion of the Board of Directors.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under federal securities laws, NRG Energy's directors and executive officers are required to report, within specified monthly and annual due dates, their initial ownership in NRG Energy's securities and subsequent acquisitions, dispositions or other transfers of interest in such securities. NRG Energy is required to disclose whether it has knowledge that any person required to file such a report may have failed to do so in a timely manner. To the knowledge of NRG Energy, all of its directors and officers subject to such reporting obligations have satisfied their reporting obligations in full for 2002 except for Scott J. Davido, Ershel C. Redd Jr., George P. Schaefer and John P. Brewster each of whom was late in satisfying his Form 3 reporting requirements.

Item 11 — Executive Compensation

Compensation of Executive Officers

The following tables set forth cash and non-cash compensation for each of the last three fiscal years ended December 31, for the individuals who served as NRG Energy’s Chief Executive Officer and Chief Operating Officer during 2002 and each of the four next most highly compensated executive officers (collectively, the “Named Executive Officers”).

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Restricted Stock Awards (\$)	Number of Securities Underlying Options and SARs[6] (#)	LTIP Payouts (\$)	All Other Compensation (\$)
Wayne Brunetti [1]	2002	—	—	—	—	—	—	—
Chairman, President and Chief Executive Officer	2001	—	—	—	—	—	—	—
	2000	—	—	—	—	—	—	—
David H. Peterson [2]	2002	208,334	—	38,647[3]	—	—	—	1,754,424[5]
Former Chairman, President & Chief Executive Officer	2001	491,670	750,000	13,689	—	265,500	—	9,902
	2000	397,340	474,000	28,678	—	120,000	1,212,067	22,923
John Brewster	2002	189,503	—	—	—	—	—	11,253[7]
Vice President — Worldwide Operations	2001	155,317	102,552	5,000	—	7,000	—	4,660
	2000	91,741	24,343	—	—	800	—	157
William Pieper	2002	158,769	—	—	—	—	—	9,706[10]
Vice President & Controller	2001	138,302	153,994	—	—	41,000	—	—
	2000	127,554	74,612	—	—	1,414	—	2,976
Renee Sass [4]	2002	192,215	—	24,299	—	—	—	51,428[8]
Former Vice President Strategic Planning & Asset Mgmt	2001	175,004	203,500	27,270	—	35,000	—	—
	2000	147,672	79,685	—	—	1,722	—	2,882
Craig Mataczynski [9]	2002	160,006	—	11,624[11]	—	—	—	95,386[12]
Former Senior Vice President North America	2001	316,680	321,038	7,752	—	105,000	—	8,125
	2000	278,340	276,500	6,303	—	60,000	186,250	3,059

[1] Mr. Brunetti is Chairman, President and Chief Executive Officer of Xcel Energy, NRG Energy’s parent company. He is not compensated by NRG Energy for service in his capacity as Chairman and Chief Executive Officer.

[2] Mr. Peterson’s employment with NRG Energy terminated on May 31, 2002

[3] Includes fringe benefits and fringe benefit tax gross-up.

[4] Mr. Sass’s employment with NRG Energy terminated on December 18, 2002

[5] Includes paid time off (PTO) payout, 401(k) match, fringe benefit tax gross-up, severance payment for two months and pension make-up payment.

[6] Represents options to purchase Xcel Energy Common Stock.

[7] Includes 401(k) match.

[8] Includes severance pay, 401(k) match and PTO payout.

[9] Mr. Mataczynski’s employment with NRG Energy terminated on June 28, 2002

[10] Represents 401(k) match.

[11] Includes fringe benefits and fringe benefit tax gross-up.

[12] Includes severance pay, 401(k) match and PTO payout.

OPTIONS AND STOCK APPRECIATION RIGHTS (SARs)

NRG Energy did not use stock options and SARs for executive compensation purposes in 2002.

The following table indicates for each of the Named Executive Officers the number and value of all exercisable and unexercisable options and SARs held by the Named Executive Officers as of December 31, 2002.

**Aggregated Option/ SAR Exercises in Last Fiscal Year
and FY-End Option/ SAR Values**

(a) Name	(b) Shares Acquired on Exercise(1)	(c) Value Realized(\$)	(d) Number of Securities Underlying Unexercised Options/SARs at FY-End(1) Exercisable/Unexercisable	(e) Value of Unexercised In-the-Money Options/SARs at FY-End(\$) Exercisable/Unexercisable(2)
David H. Peterson	94,798	\$789,451	180,389/227,915	\$(1,870,207)/\$(1,851,016)
Craig A. Mataczynski	—	—	56,372/48,396	\$ (686,336)/\$(1,043,922)
William T. Pieper	2,674	\$ 28,738	6,307/17,375	\$ (8,825)/\$(14,922)
Renee Sass	3,684	\$ 50,192	17,086/17,702	\$ (161,162)/\$(387,867)
John P. Brewster	—	—	975/2,925	\$ (1,900)/\$(5,700)

(1) Shares acquired on exercise are stated at the Xcel Energy conversion value.

(2) Option values were calculated based on a \$11.00 closing price of Xcel Common Stock at December 31, 2002.

Pension Plan Tables

NRG Energy participates in Xcel Energy's noncontributory, defined benefit pension plan. Such plan covers substantially all of NRG Energy's employees. As of January 1, 1999, the pension benefit formula that applies to the Named Executive Officers was changed and each Named Executive Officer, together with all other affected nonbargaining employees, was given an opportunity to choose between two retirement programs, the traditional program and the pension equity program. Messrs. Peterson and Mataczynski have selected the traditional program and Messrs. Pieper, Sass and Brewster have selected the pension equity program.

Under the traditional program applicable to certain of the Named Executive Officers, the pension benefit is computed by taking the highest average compensation below the integration level times 1.1333% plus the highest average compensation above the integration level times 1.6333%. The result is multiplied by credited service. The integration level is one-third of the social security wage base. The annual compensation used to calculate average compensation is base salary for the year. After an employee has reached 30 years of service, no additional years of service are used in determining the pension benefit under the traditional program. The benefit amounts under the traditional program are computed in the form of a straight-life annuity.

Under the pension equity program applicable to certain of the Named Executive Officers, the formula for determining the pension benefit is average compensation times credited years of service times 10%. The annual compensation used to calculate average compensation is base salary for the year plus bonus compensation paid in that same year. There is no maximum on the number of years of service used to determine the pension benefit. The benefit amounts under the pension equity program are computed in the form of a lump sum.

Both programs feature a retirement spending account, which credits \$1,400 plus interest annually. The opening balance as of January 1, 1999 was \$1,400, multiplied by years of service.

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The following table illustrates the approximate retirement benefits payable to employees retiring at the normal retirement age of 65 years under the traditional program applicable to certain of the Named Executive Officers:

Average Compensation (Last 4 Years)	Estimated Annual Benefits for Years of Service Indicated Years of Service					
	5	10	15	20	25	30
\$ 50,000	\$ 4,500	\$ 9,000	\$ 13,500	\$ 19,000	\$ 25,000	\$ 31,500
100,000	8,500	17,000	25,500	35,000	45,500	56,000
150,000	12,500	25,000	38,000	51,500	66,000	80,500
200,000	16,500	33,500	50,000	68,000	86,500	105,000
250,000	21,000	41,500	62,500	84,000	107,000	129,500
300,000	25,000	49,500	74,500	100,500	127,500	154,000
350,000	29,000	58,000	87,000	117,000	147,500	178,500
400,000	33,000	66,000	99,000	133,000	168,000	203,000
450,000	37,000	74,000	111,500	149,500	188,500	227,500
500,000	41,000	82,500	123,500	166,000	209,000	252,000
550,000	45,500	90,500	136,000	182,000	229,500	276,500
600,000	49,500	98,500	148,000	198,500	250,000	301,000
650,000	53,500	107,000	160,500	215,000	270,000	325,500
700,000	57,500	115,000	172,500	231,000	290,500	350,000
750,000	61,500	123,000	185,000	247,500	311,000	374,500
800,000	65,500	131,500	197,000	264,000	331,500	399,000
850,000	70,000	139,500	209,500	280,000	352,000	423,500
900,000	74,000	147,500	221,500	296,500	372,500	448,000
950,000	78,000	156,000	234,000	313,000	392,500	472,500
1,000,000	82,000	164,000	246,000	329,000	413,000	497,000
1,050,000	86,000	172,000	258,500	345,500	433,500	521,500
1,100,000	90,000	180,500	270,500	362,000	454,000	546,000
1,150,000	94,500	188,500	283,000	378,000	474,500	570,500
1,200,000	98,500	196,500	295,000	394,500	495,000	595,000

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The following table illustrates the approximate retirement benefits payable to employees retiring at the normal retirement age of 65 years under the pension equity program applicable to certain of the Named Executive Officers if paid in the form of a straight-line annuity:

Average Compensation (Last 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	\$ 11,000	\$ 15,500	\$ 20,500	\$ 26,500
100,000	6,000	12,000	18,500	25,500	33,000	41,500
150,000	8,500	17,000	26,000	35,500	46,000	57,000
200,000	11,000	22,000	33,500	45,500	58,500	72,000
250,000	13,500	27,000	41,500	56,000	71,000	87,000
300,000	16,000	32,500	49,000	66,000	83,500	102,500
350,000	18,500	37,500	56,500	76,000	96,500	117,500
400,000	21,000	42,500	64,000	86,000	109,000	133,000
450,000	23,500	47,500	71,500	96,500	121,500	148,000
500,000	26,000	52,500	79,500	106,500	134,500	163,000
550,000	28,500	57,500	87,000	116,500	147,000	178,500
600,000	31,000	62,500	94,500	127,000	159,500	193,500
650,000	33,500	67,500	102,000	137,000	172,500	208,500
700,000	36,000	73,000	109,500	147,000	185,000	224,000
750,000	39,000	78,000	117,000	157,000	197,500	239,000
800,000	41,500	83,000	125,000	167,500	210,500	254,500
850,000	44,000	88,000	132,500	177,500	223,000	269,500
900,000	46,500	93,000	140,000	187,500	235,500	284,500
950,000	49,000	98,000	147,500	197,500	248,500	300,000
1,000,000	51,500	103,000	155,000	208,000	261,000	315,000
1,050,000	54,000	108,000	163,000	218,000	273,500	330,500
1,100,000	56,500	113,500	170,500	228,000	286,500	345,500
1,150,000	59,000	118,500	178,000	238,000	299,000	360,500
1,200,000	61,500	123,500	185,500	248,500	311,500	376,000

The approximate credited years of service as of December 31, 2001, for the Named Executive Officers were as follows:

Mr. Peterson	38.33
Mr. Mataczynski	20.00
Mr. Pieper	7.67
Mrs. Sass	11.50
Mr. Brewster	2.75

Employment Agreements

Scott J. Davido

Scott J. Davido is party to a Key Executive Retention, Restructuring Bonus and Severance Agreement with NRG Energy dated as of February 18, 2003. Under the agreement, Mr. Davido is entitled to: (i) a time-vested retention bonus of \$150,000 (the "Retention Bonus") (ii) compensation for participation in the restructuring of NRG Energy (the "Restructuring Bonus") and (iii) certain severance benefits.

Mr. Davido has been given the entire Retention Bonus and will be entitled to keep the entire Retention Bonus provided he does not voluntarily terminate his employment before July 31, 2003. If Mr. Davido does voluntarily terminate his employment before July 31, 2003, he will be entitled to keep a prorata portion of his bonus based on the number of days remaining until July 31, 2003.

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Mr. Davido is entitled to a Restructuring Bonus upon the (i) the consummation of a consensual out of court restructuring of all or substantially all of the debt of NRG Energy, (ii) the confirmation of a plan of reorganization for NRG Energy or (iii) the completion of a sale of all or substantially all of the assets of NRG Energy. Mr. Davido is not entitled to a Restructuring Bonus if he is terminated for cause, his employment ends due to disability or retirement or he voluntarily terminates his employment. The Restructuring Bonus is equal to two times the sum of (i) Mr. Davido's base salary and (ii) the greater of: (a) Mr. Davido's average bonus over the last two years or (b) Mr. Davido's target annual bonus established under a bonus plan for the year in which the restructuring occurs.

Mr. Davido is entitled to certain severance payments in particular situations where Mr. Davido's employment with NRG Energy is terminated. If Mr. Davido is terminated without cause or resigns for good reason he is entitled to all of the following: (i) two times the sum of (a) Mr. Davido's base salary and (b) the greater of: (x) Mr. Davido's average bonus over the last two years or (y) Mr. Davido's target annual bonus established under a bonus plan for the year in which the termination occurs; (ii) a prorata portion of Mr. Davido's unpaid target annual incentive; (iii) a payment equivalent to the COBRA premiums in effect as of the termination; and (iv) a cash payment of vacation and/or paid time off earned but not taken by Mr. Davido. If Mr. Davido's employment is terminated for disability, death or retirement, he (or his estate) is entitled to his base salary and vacation earned but untaken through the termination.

All of the obligations under Mr. Davido's Key Executive Retention, Restructuring Bonus and Severance Agreement are guaranteed by Xcel Energy. In addition, Mr. Davido has agreed not to compete with NRG Energy for a period of one year after the termination of his employment.

Ershel Redd

Ershel Redd is party to a severance agreement with NRG Energy dated as of January 30, 2003. Under the agreement, Mr. Redd is entitled to severance benefits equivalent to those under the Xcel Energy Business Unit Vice President Severance Plan. Specifically, if (i) Mr. Redd's employment is terminated without cause, (ii) his position is eliminated without a comparable position being offered, (iii) his salary is reduced by more than 10% (and he subsequently voluntarily terminates his employment) or (iv) he is required to relocate (and he subsequently voluntarily terminates his employment), then Mr. Redd is entitled to lump-sum and continuing severance benefits during the "severance period" (18 months after employment termination). Further, all of the obligations under Mr. Redd's severance plan are guaranteed by Xcel Energy.

The lump-sum severance benefit is equal to the aggregate of: (i) unpaid annual salary through the date of termination and a prorata share of Mr. Redd's target annual incentive; (ii) 1.5 times the sum of Mr. Redd's salary and target annual incentive; (iii) certain retirement benefits Mr. Redd would have earned had he been employed during the severance period; and (iv) certain contributions the NRG would have made to Mr. Redd's defined contribution and supplemental executive savings plans. The continuing benefits include: (i) medical, dental vision and life insurance; (ii) outplacement services (up to \$15,000); (iii) financial counseling; and (iv) the "flexible prerequisite allowance."

William Pieper

William Pieper is party to an NRG Executive Officer and Key Personnel Severance Plan with NRG Energy dated as of July 16, 2001 (as modified by a letter agreement between Mr. Pieper, NRG Energy and Xcel Energy dated as of July 16, 2002).

Under the agreement, if Mr. Pieper's employment is terminated by NRG Energy without cause or Mr. Pieper voluntarily terminates his employment within three months of a material change or reduction in his responsibilities at NRG Energy, then Mr. Pieper is entitled to certain severance benefits. Specifically, Mr. Pieper is entitled to (i) 1.5 times the sum of (a) his base salary and (b) the greater of (x) Mr. Pieper's average annual bonus over the two years preceding the termination or (y) Mr. Pieper's target annual bonus for the year of termination, (ii) the unpaid prorata portion of Mr. Pieper's targeted annual incentive, (iii) a net cash payment equivalent to the COBRA rates of the welfare benefits of medical, dental and term life

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insurance for twelve months, (iv) a cash payment for earned and untaken vacation time and (v) the continued vesting of options granted under the Long-Term Incentive and Compensation Plan for a period of two years.

In addition, under the agreement, if there is a change of control of NRG Energy and Mr. Pieper's employment is terminated within 6 months prior to such change of control or 12 months following such change of control, then Mr. Pieper is entitled to certain severance benefits. Specifically, Mr. Pieper is entitled to (i) 2.5 times the sum of (a) his base salary and (b) the greater of (x) Mr. Pieper's average annual bonus over the two years preceding the termination or (y) Mr. Pieper's target annual bonus for the year of termination, (ii) the unpaid prorata portion of Mr. Pieper's targeted annual incentive, (iii) a net cash payment equivalent to the COBRA rates of the welfare benefits of medical, dental and term life insurance for twelve months, (iv) a cash payment for earned and untaken vacation time and (v) all outstanding long-term incentive awards subject to the treatment provided under the long-term incentive plan of NRG Energy.

The letter agreement dated July 16, 2002 provides that rather than immediately terminating his employment and seeking severance benefits due to a material change or reduction in his responsibilities at NRG Energy (after NRG Energy became a wholly-owned subsidiary of Xcel Energy), NRG Energy has instead extended the time frame in which Mr. Pieper may terminate his employment and seek such severance benefits by 15 months, provided Mr. Pieper does not terminate his employment within 12 months of July 16, 2002.

George Schaefer

George Schaefer is party to a letter agreement with NRG Energy dated as of December 18, 2002 which provides Mr. Schaefer certain severance benefits in the event his employment with NRG Energy is terminated. Specifically, in the event Mr. Schaefer's employment is terminated without cause or Mr. Schaefer resigns for good reason, he is entitled to a lump sum payment equal to his base salary and a lump sum payment for all costs associated with health benefits under COBRA for a period of twelve months.

Director Compensation

Directors of NRG Energy do not receive compensation for service in such capacity.

Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters

NRG Energy is a wholly owned subsidiary of Xcel Energy Wholesale Group Inc.

Item 13 — Certain Relationships and Related Transactions

NRG Energy was initially incorporated in Minnesota in 1989, and was reincorporated in Delaware in 1992 as a wholly owned subsidiary of NSP. NRG Energy became publicly traded on May 31, 2000. In August 2000, NSP merged with NCE to form Xcel Energy. Following the completion in March 2001 of a public offering by NRG Energy of 18.4 million shares of Common Stock (the March 2001 Offering), Xcel Energy owned an approximate 74% interest in the Common Stock and Class A Common Stock of NRG Energy on a combined basis, representing 96.7% of the total voting power of the Common Stock and Class A Common Stock on a combined basis. On June 3, 2002, Xcel Energy completed its exchange offer for the 26% of NRG Energy's shares that had been previously publicly held. In addition, 3 directors of NRG Energy are executive officers of Xcel Energy.

Operating Agreements

NRG Energy has one thermal contract with Xcel Energy in 2002 that expires on December 31, 2006. This contract relates to incremental costs associated with the sale of steam at Xcel Energy's King plant in Bayport, Minnesota. The NRG Energy Center Rock-Tenn, LLC has two contracts with Xcel Energy in 2002; one is a coal contract that expired December 31, 2002, and the other covers the use and operation of certain facilities at Xcel Energy's Highbridge plant in St. Paul, Minnesota that expires December 31, 2010. NRG Energy paid \$8.2 million in 2002 under these agreements.

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NRG Energy has a renewable 10-year agreement with Xcel Energy, expiring on December 31, 2006, under which Xcel Energy agrees to purchase refuse-derived fuel for use in certain of its boilers, and NRG Energy agrees to pay Xcel Energy a burn incentive. Under this agreement, NRG Energy received from Xcel Energy \$1.2 million in 2002, and NRG Energy paid to Xcel Energy \$3.3 million in 2002.

Reimbursement for Administrative Services

NRG Energy reimburses Xcel Energy for certain overhead and administrative costs, including benefits administration, engineering support, accounting, and other shared services. Employees of NRG Energy participate in certain employee benefit plans of Xcel Energy. NRG Energy paid Xcel Energy \$21.2 million in 2002 as reimbursement for certain overhead costs and the cost of services provided.

Consulting Services Agreement

NRG Energy has an agreement with Utility Engineering Corporation, a wholly owned subsidiary of Xcel Energy, under which Utility Engineering provides consulting services to NRG Energy. Consulting services are provided from time to time at NRG Energy's request. NRG Energy paid \$698,000 to Utility Engineering for consulting services in 2002.

Tax Allocation Agreement

NRG Energy was formerly a member of Xcel Energy's consolidated tax group for United States federal income tax purposes. The responsibility for payment of taxes and the allocation between Xcel Energy and NRG Energy of tax benefits and liabilities was previously governed by a tax sharing agreement between NRG Energy and Xcel Energy. Such tax sharing agreement was replaced by a tax allocation agreement, which became effective as of December 2000, that formalized the various practices which arose under the previous tax sharing agreement and reflected the change in NRG Energy's status from a wholly-owned subsidiary of Xcel Energy to a majority-owned subsidiary. Following the completion of the March 2001 Offering, Xcel Energy owned equity securities representing less than 80% of NRG Energy's value and, accordingly, NRG Energy was no longer a member of Xcel Energy's consolidated tax group.

On June 3, 2002 Xcel Energy completed its exchange offer for the 26% of NRG Energy's shares that had been publicly held. Starting June 4, 2002, NRG Energy and subsidiaries can rejoin Xcel Energy's consolidated group for federal income tax purposes provided the Internal Revenue Service (IRS) consents to such rejoining. To date, no request has been made to the IRS for consent to permit Xcel Energy to reconsolidate NRG Energy for federal income tax purposes. It is likely that Xcel Energy will not request IRS consent to consolidate NRG Energy for income tax purposes for 2002.

Services Agreement

NRG Power Marketing, Inc. has an agreement with e prime, Inc., a wholly-owned subsidiary of Xcel Energy under which e prime, Inc. provides strategic and other business advice relating to origination opportunities with NRG Energy's plant output. These services are provided from time to time at the request of NRG Power Marketing, Inc.

Natural Gas Marketing and Trading Agreement

NRG Energy has agreements with e prime, a wholly owned subsidiary of Xcel Energy, under which e prime provides natural gas and related products from time to time at NRG Energy's request. NRG Energy paid \$19.2 million to e prime in 2002.

Item 14 — Controls and Procedures

The CEO, Vice President and Treasurer and Vice President and Controller (the Certifying Officers) have evaluated NRG Energy's disclosure controls and procedures as defined in the rules of the SEC within 90 days of the filing date of this report and have determined that, except to the extent indicated otherwise in

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this paragraph, disclosure controls and procedures were effective in ensuring that material information required to be disclosed by NRG in the reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. During the fourth quarter of 2002, the Certifying Officers determined that there were certain deficiencies in the internal controls relating to financial reporting at NRG Energy caused by the NRG's pending financial restructuring and business realignment. During the second half of 2002, there were material changes and vacancies in senior NRG management positions and a diversion of NRG financial and management resources to restructuring efforts. These circumstances detracted from NRG's ability through its internal controls to timely monitor and accurately assess the impact of certain transactions, as would be expected in an effective financial reporting control environment. NRG has dedicated and will continue to dedicate in 2003 resources to make corrections to those control deficiencies. Notwithstanding the foregoing and as indicated in the certification accompanying the signature page to this report, the Certifying Officers have certified that, to the best of their knowledge, the financial statements, and other financial information included in this report on Form 10-K, fairly present in all material respects the financial conditions, results of operations and cash flows of NRG Energy as of, and for the periods presented in this report.

NRG's Energy's Certifying Officers are primarily responsible for the accuracy of the financial information that is represented in this report. To meet their responsibility for financial reporting, they have established internal controls and procedures which, subject to the disclosure in the foregoing paragraph, they believe are adequate to provide reasonable assurance that NRG assets are protected from loss. There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of the Certifying Officers evaluation.

PART IV

Item 15 — Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements

The following consolidated financial statements of NRG Energy, Inc. and related notes thereto, together with the report thereon of PricewaterhouseCoopers LLP, appearing on pages 68 through 148 are included herein:

Consolidated Statements of Operations — Years ended December 31, 2002, 2001 and 2000
Consolidated Statements of Cash Flows — Years ended December 31, 2002, 2001 and 2000
Consolidated Balance Sheets — December 31, 2002 and 2001
Consolidated Statements of Stockholder's (Deficit)/ Equity — Years ended December 31, 2002, 2001 and 2000
Notes to Consolidated Financial Statements — December 31, 2002.

(a)(2) Financial Statement Schedule

The following Consolidated Financial Statement Schedule of NRG Energy, Inc. is filed as part of Item 15(d) of this report and should be read in conjunction with the Consolidated Financial Statements.

Report of Independent Accountants on Financial Statement Schedule.

Schedule II — Valuation and Qualifying Accounts

NRG Energy will supplementally provide the financial statements of West Coast Power LLC as an amendment to this filing when such statements are completed and provided to NRG Energy. All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

(a)(3) *Exhibits*: See Exhibit Index submitted as a separate section of this report.

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(b) *Reports on Form 8-K.* NRG Energy filed reports on Form 8-K on the following dates over the last fiscal year:

January 31, 2002, February 26, 2002, April 16, 2002, April 25, 2002, June 19, 2002, August 1, 2002, September 16, 2002, September 24, 2002, October 4, 2002, October 24, 2002, October 30, 2002, November 5, 2002, November 19, 2002, November 21, 2002, November 27, 2002, December 23, 2002, December 31, 2002, February 21, 2003, March 6, 2003.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholder
of NRG Energy, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and stockholder's (deficit)/equity present fairly, in all material respects, the financial position of NRG Energy, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, 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 our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is experiencing credit and liquidity constraints and has various credit arrangements that are in default. As a direct consequence, during 2002 the Company entered into discussions with its creditors to develop a comprehensive restructuring plan. In connection with its restructuring efforts, it is likely the Company and certain of its subsidiaries will file for Chapter 11 bankruptcy protection. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 19 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", for the year ended December 31, 2002. As discussed in Note 26 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001. As discussed in Notes 3 and 5 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," on January 1, 2002.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

March 28, 2003

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Operating Revenues and Equity Earnings			
Revenues from majority-owned operations	\$ 2,212,153	\$2,201,427	\$ 1,670,774
Equity in earnings of unconsolidated affiliates	68,996	210,032	139,364
Total operating revenues and equity earnings	<u>2,281,149</u>	<u>2,411,459</u>	<u>1,810,138</u>
Operating Costs and Expenses			
Cost of majority-owned operations	1,510,550	1,429,967	1,060,130
Depreciation and amortization	256,199	169,596	97,304
General, administrative and development	250,131	193,940	169,040
Write downs and losses on sales of equity method investments	196,192	—	—
Special charges	2,656,093	—	—
Total operating costs and expenses	<u>4,869,165</u>	<u>1,793,503</u>	<u>1,326,474</u>
Operating (Loss)/ Income	<u>(2,588,016)</u>	<u>617,956</u>	<u>483,664</u>
Other Income (Expense)			
Minority interest in (earnings)/losses of consolidated subsidiaries	4,759	(2,255)	(840)
Other income, net	4,170	19,874	5,798
Interest expense	(493,956)	(389,311)	(250,790)
Total other expense	<u>(485,027)</u>	<u>(371,692)</u>	<u>(245,832)</u>
(Loss)/ Income From Continuing Operations Before Income Taxes	<u>(3,073,043)</u>	<u>246,264</u>	<u>237,832</u>
Income Tax (Benefit)/ Expense	(165,382)	28,052	86,903
(Loss)/ Income From Continuing Operations	<u>(2,907,661)</u>	<u>218,212</u>	<u>150,929</u>
(Loss)/ Income on Discontinued Operations, net of Income Taxes	<u>(556,621)</u>	<u>46,992</u>	<u>32,006</u>
Net (Loss)/ Income	<u>\$ (3,464,282)</u>	<u>\$ 265,204</u>	<u>\$ 182,935</u>

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Cash Flows from Operating Activities			
Net (loss)/income	\$(3,464,282)	\$ 265,204	\$ 182,935
Adjustments to reconcile net (loss)/income to net cash provided by operating activities			
Undistributed equity in earnings of unconsolidated affiliates	(22,252)	(119,002)	(43,258)
Depreciation and amortization	286,623	212,493	122,953
Amortization of deferred financing costs	28,367	10,668	7,678
Special charges	3,144,509	—	—
Write downs and losses on sales of equity method investments	196,192	—	—
Deferred income taxes and investment tax credits	(230,134)	45,556	38,458
Unrealized (gains)/losses on energy contracts	(2,743)	(13,257)	—
Minority interest	(19,325)	6,564	4,993
Amortization of out of market power contracts	(89,415)	(54,963)	—
Gain on sale of discontinued operations	(2,814)	—	—
Cash provided by (used in) changes in certain working capital items, net of effects from acquisitions and dispositions			
Accounts receivable, net	(15,487)	89,523	(198,091)
Accounts receivable-affiliates	2,271	—	10,703
Inventory	42,596	(111,131)	(12,316)
Prepayments and other current assets	(58,367)	(36,530)	(608)
Accounts payable	278,900	(4,512)	143,045
Accounts payable-affiliates	47,049	4,989	—
Accrued income taxes	44,137	(75,132)	39,137
Accrued property and sales taxes	27,481	4,054	3,743
Accrued salaries, benefits, and related costs	(24,912)	15,785	(8,153)
Accrued interest	203,234	35,637	38,479
Other current liabilities	47,692	82,754	(5,136)
Other assets and liabilities	10,723	(82,686)	37,116
Net Cash Provided by Operating Activities	430,043	276,014	361,678
Cash Flows from Investing Activities			
Acquisitions, net of liabilities assumed	—	(2,813,117)	(1,912,957)
Proceeds from sale of discontinued operations	160,791	—	—
Proceeds from sale of investments	68,517	4,063	8,917
Decrease/(increase) in restricted cash	(197,802)	(99,707)	5,306
Decrease/(increase) in notes receivable	(209,244)	45,091	(5,444)
Capital expenditures	(1,439,733)	(1,322,130)	(223,560)
Proceeds from sale of property	—	—	9,785
Investments in projects	(63,996)	(149,841)	(86,195)
Net Cash Used in Investing Activities	(1,681,467)	(4,335,641)	(2,204,148)
Cash Flows from Financing Activities			
Net borrowings/(payments) under line of credit agreement	790,000	202,000	(367,766)
Proceeds from issuance of stock	4,065	475,464	453,719
Proceeds from issuance of corporate units (warrants)	—	4,080	—
Proceeds from issuance of short term debt	—	622,156	—
Capital contributions from parent	500,000	—	—
Proceeds from issuance of long-term debt	1,086,770	3,268,017	3,034,909
Principal payments on long-term debt	(931,505)	(418,171)	(1,214,992)
Net Cash Provided by Financing Activities	1,449,330	4,153,546	1,905,870

Effect of Exchange Rate Changes on Cash and Cash Equivalents	24,950	(3,055)	360
Change in Cash from Discontinued Operations	56,097	(21,570)	(57,638)
Net Increase in Cash and Cash Equivalents	278,953	69,294	6,122
Cash and Cash Equivalents at Beginning of Year	106,102	36,808	30,686
Cash and Cash Equivalents at End of Year	\$ 385,055	\$ 106,102	\$ 36,808

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
	(In thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 385,055	\$ 106,102
Restricted cash	282,583	142,676
Accounts receivable-trade, less allowance for doubtful accounts of \$67,530 and \$13,634	281,532	216,935
Income tax receivable	4,486	44,706
Accounts receivable — affiliate	—	2,464
Inventory	267,923	309,553
Current portion of notes receivable	5,442	737
Derivative instruments valuation	28,791	15,938
Prepayments and other current assets	121,897	50,677
Current assets held for sale	108,535	316,621
Total current assets	1,486,244	1,206,409
Property, Plant and Equipment		
In service	6,799,878	5,542,313
Under construction	623,750	2,923,731
Total property, plant and equipment	7,423,628	8,466,044
Less accumulated depreciation	(625,706)	(417,514)
Net property, plant and equipment	6,797,922	8,048,530
Other Assets		
Equity investments in affiliates	884,263	1,038,195
Notes receivable, less current portion	985,253	775,865
Decommissioning fund investments	4,617	4,336
Intangible assets, net of accumulated amortization of \$22,869 and \$20,329	77,979	80,946
Debt issuance costs, net of accumulated amortization of \$50,382 and \$25,357	141,706	98,161
Derivative instruments valuation	90,766	96,017
Other assets, net of accumulated amortization of \$4,229 and \$2,989	35,166	34,960
Non-current assets held for sale	379,772	1,530,178
Total other assets	2,599,522	3,658,658
Total Assets	\$10,883,688	\$12,913,597

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS — (Continued)

	December 31,	
	2002	2001
	(In thousands)	
LIABILITIES AND STOCKHOLDER'S (DEFICIT)/EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 7,193,237	\$ 210,885
Revolving line of credit	1,000,000	170,000
Revolving line of credit, non-recourse debt	—	40,000
Project-level, non-recourse debt	30,064	22,156
Corporate level, recourse debt	—	600,000
Accounts payable-trade	547,563	232,818
Accounts payable-affiliate	56,610	—
Accrued property, sales and other taxes	27,677	14,531
Accrued salaries, benefits and related costs	21,137	38,677
Accrued interest	289,815	95,010
Derivative instruments valuation	13,439	21,910
Other current liabilities	97,192	94,236
Current liabilities held for sale	520,101	429,433
	9,796,835	1,969,656
Total current liabilities		
Other Liabilities		
Long-term debt	1,192,630	4,309,505
Corporate level long-term, recourse debt	—	2,972,400
Deferred income taxes	87,887	291,163
Postretirement and other benefit obligations	67,495	75,000
Derivative instruments valuation	91,039	36,389
Other long-term obligations and deferred income	158,198	211,177
Minority interest	29,841	27,881
Non-current liabilities held for sale	155,962	783,297
	11,579,887	10,676,468
Total liabilities		
Commitments and Contingencies		
Stockholder's (Deficit)/Equity		
Class A — Common stock; \$.01 par value; 100 shares and 250,000,000 shares authorized in 2002 and 2001; 3 shares and 147,604,500 shares issued and outstanding at December 31, 2002 and 2001	—	1,476
Common stock; \$.01 par value; 100 shares and 550,000,000 shares authorized in 2002 and 2001; 1 share and 50,939,875 shares issued and outstanding at December 31, 2002 and 2001	—	509
Additional paid-in capital	2,227,692	1,713,984
Retained (deficit) earnings	(2,828,933)	635,349
Accumulated other comprehensive loss	(94,958)	(114,189)
	(696,199)	2,237,129
Total Stockholder's (Deficit)/ Equity		
Total Liabilities and Stockholder's (Deficit)/Equity	\$10,883,688	\$12,913,597

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDER'S (DEFICIT)/ EQUITY

	Class A Common		Common		Additional Paid-in Capital	Retained Earnings/(Deficit)	Accumulated Other Comprehensive (Loss)/Income	Total Stockholder's (Deficit)/ Equity
	Stock	Shares	Stock	Shares				
(In thousands)								
Balances at December 31, 1999	\$ 1,476	147,605	\$ —	—	\$ 780,438	\$ 187,210	\$ (75,470)	\$ 893,654
Net income						182,935		182,935
Foreign currency translation adjustments							(68,220)	(68,220)
Comprehensive income for 2000								114,715
Issuance of common stock, net of issuance costs of \$32.2 million			324	32,396	453,395			453,719
Balances at December 31, 2000	\$ 1,476	147,605	\$ 324	32,396	\$ 1,233,833	\$ 370,145	\$ (143,690)	\$ 1,462,088
Net income						265,204		265,204
Foreign currency translation adjustments and other							(41,600)	(41,600)
Deferred unrealized gains, net on derivatives							71,101	71,101
Comprehensive income for 2001								294,705
Capital stock activity:								
Issuance of corporate units/ warrant					4,080			4,080
Tax benefits of stock option exercise					792			792
Issuance of common stock, net of issuance costs of \$23.5 million			185	18,543	475,279			475,464
Balances at December 31, 2001	\$ 1,476	147,605	\$ 509	50,939	\$ 1,713,984	\$ 635,349	\$ (114,189)	\$ 2,237,129
Net loss						(3,464,282)		(3,464,282)
Foreign currency translation adjustments and other							64,054	64,054

Deferred unrealized loss, net on derivatives						(44,823)		(44,823)
Comprehensive loss for 2002								(3,445,051)
Contribution from parent					502,874			502,874
Issuance of common stock			6	591	8,843			8,849
Impact of exchange offer	(1,476)	(147,605)	(515)	(51,530)	1,991			—
Balances at December 31, 2002	\$ —	—	\$ —	—	\$2,227,692	\$(2,828,933)	\$ (94,958)	\$ (696,199)

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Organization

NRG Energy, Inc., (NRG Energy or the Company), was incorporated as a Delaware corporation on May 29, 1992. Beginning in 1989, NRG Energy conducted business through its predecessor companies, NRG Energy, Inc. and NRG Group, Inc., Minnesota corporations, which were merged into NRG Energy subsequent to its incorporation. NRG Energy, together with its majority owned subsidiaries and affiliates, is an energy company primarily engaged in the ownership and operation of power generation facilities and the sale of energy, capacity and related products.

On June 5, 2000, NRG Energy completed its initial public offering. Prior to its initial public offering, NRG Energy was a wholly owned subsidiary of Northern States Power (NSP). In August 2000, NSP merged with New Century Energies, Inc. (NCE), a Colorado-based public utility holding company. The surviving corporation in the merger was renamed Xcel Energy Inc. (Xcel Energy or Parent), Xcel Energy directly owns six utility subsidiaries that serve electric and natural gas customers in 12 states. Xcel Energy also owns or has interests in a number of non-regulated businesses, the largest of which is NRG Energy. In March 2001, NRG Energy completed a second public offering of 18.4 million shares of its common stock. Following this offering, Xcel Energy indirectly owned a 74% interest in NRG Energy's common stock and class A common stock, representing 96.7% of the total voting power of NRG Energy's common stock and class A common stock.

Since the early 1990's, NRG Energy pursued a strategy of growth through acquisitions. Starting in 2000, NRG Energy added the development of new construction projects to this strategy. This strategy required significant capital, much of which was satisfied primarily with third party debt. As of December 31, 2002, NRG Energy had approximately \$9.4 billion of debt on its balance sheet at the corporate and project levels. Due to a number of reasons, including the overall down-turn in the energy industry, NRG Energy's financial condition has deteriorated significantly. As a direct consequence, in 2002 NRG Energy entered into discussions with its creditors in anticipation of a comprehensive restructuring in order to become a more stable and conservatively capitalized company. In connection with its restructuring efforts, it is likely that NRG Energy (and certain of its subsidiaries) will file for Chapter 11 bankruptcy protection. If NRG Energy were to file for Chapter 11 bankruptcy protection, Xcel Energy's equity ownership would most likely be eliminated and a large number of NRG Energy's creditors' claims would be impaired.

On March 26, 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with holders of most of NRG Energy's long-term notes and the steering committee representing NRG's bank lenders. The settlement is subject to certain conditions, including the approval of at least a majority in dollar amount of the NRG Energy bank lenders and long-term noteholders and definitive documentation. There can be no assurance that such approvals will be obtained. The terms of the settlement call for Xcel Energy to make payments to NRG Energy over the next 13 months totaling up to \$752 million for the benefit of NRG Energy's creditors in consideration for their waiver of any existing and potential claims against Xcel Energy. Under the settlement, Xcel Energy will make the following payments: (i) \$350 million at or shortly following the consummation of a restructuring of NRG Energy's debt. It is expected this payment would be made prior to year-end 2003; (ii) \$50 million on January 1, 2004. At Xcel Energy's option, it may fill this requirement with either cash or Xcel Energy common stock or any combination thereof; and (iii) \$352 million in April 2004.

NRG Energy is restructuring its operations to become a domestic based owner-operator of a fuel-diverse portfolio of electric generation facilities engaged in the sale of energy, capacity and related products. NRG Energy is working toward this goal by selective divestiture of non-core assets, consolidation of management, reorganization and redirection of power marketing philosophy and activities and an overall financial restructuring that will improve liquidity and reduce debt. NRG Energy does not anticipate any new significant acquisitions or construction, and instead will focus on operational performance and asset management. NRG Energy has already made significant reductions in expenditures, business development activities and personnel. Power sales, fuel procurement and risk management will remain a key strategic element of NRG Energy's

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

operations. NRG Energy's objective will be to optimize the fuel input and the energy output of its facilities within an appropriate risk and liquidity profile.

In December 2001, Moody's Investor Service (Moody's) placed NRG Energy's long-term senior unsecured debt rating on review for possible downgrade. In response, Xcel Energy and NRG Energy put into effect a plan to preserve NRG Energy's investment grade rating and improve its financial condition. This plan included financial support to NRG Energy from Xcel Energy; marketing certain NRG Energy assets for sale; canceling and deferring capital spending; and reducing corporate expenses.

In response to a possible downgrade, during 2002, Xcel Energy contributed \$500 million to NRG Energy, and NRG Energy and its subsidiaries sold assets and businesses that provided NRG Energy in excess of \$286 million in cash and eliminated approximately \$432 million in debt. NRG Energy also cancelled or deferred construction of approximately 3,900 MW of new generation projects. On July 26, 2002, Standard & Poors' (S&P) downgraded NRG Energy's senior unsecured bonds to below investment grade, and three days later Moody's also downgraded NRG Energy's senior unsecured debt rating to below investment grade. Since July 2002, NRG Energy senior unsecured debt, as well as the secured NRG Northeast Generating LLC bonds, the secured NRG South Central Generating LLC bonds and secured LSP Energy (Batesville) bonds were downgraded multiple times. After NRG Energy failed to make payments due under certain unsecured bond obligations on September 16, 2002, both Moody's and S&P lowered their ratings on NRG Energy's and its subsidiaries' unsecured bonds once again. Currently, NRG Energy's unsecured bonds carry a rating of between CCC and D at S&P and between Ca and C at Moody's, depending on the specific debt issue.

As a result of the downgrade of NRG Energy's credit rating, declining power prices, increasing fuel prices, the overall down-turn in the energy industry and the overall down-turn in the economy, NRG Energy has experienced severe financial difficulties. These difficulties have caused NRG Energy to, among other things, miss scheduled principal and interest payments due to its corporate lenders and bondholders, prepay for fuel and other related delivery and transportation services and provide performance collateral in certain instances. NRG Energy has also recorded asset impairment charges of approximately \$3.1 billion, related to various operating projects, as well as projects that were under construction which NRG Energy has stopped funding.

NRG Energy and its subsidiaries have failed to timely make interest and/or principal payments on substantial amounts of its indebtedness:

In addition, the following issues have been accelerated, rendering the debt immediately due and payable: on November 6, 2002, lenders to NRG Energy accelerated the approximately \$1.1 billion of debt under the construction revolver facility; on November 21, 2002, the bond trustee, on behalf of bondholders, accelerated the approximately \$750 million of debt under the NRG South Central Generating, LLC facility; and on February 27, 2003, ABN Amro, as administrative agent, accelerated the approximately \$1.0 billion corporate revolver financing facility.

In addition to payment defaults, prior to the downgrades, many corporate guarantees and commitments of NRG Energy and its subsidiaries required that they be supported or replaced with letters of credit or cash collateral within 5 to 30 days of a ratings downgrade below Baa3 or BBB- by Moody's or Standard & Poor's, respectively. As a result of the downgrades on July 26 and July 29, NRG Energy received demands to post collateral aggregating approximately \$1.1 billion.

On August 19, 2002, NRG Energy executed a Collateral Call Extension Letter (CCEL) with various secured project lender groups in which the banks agreed to extend until September 13, 2002, the deadline by which NRG Energy was to post its approximately \$1.0 billion of cash collateral in connection with certain bank loan agreements.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Effective as of September 13, 2002, NRG Energy and these various secured project lenders entered into a Second Collateral Call Extension Letter (Second CCEL) that extended the deadline until November 15, 2002. Under the Second CCEL, NRG Energy agreed to submit to the lenders a comprehensive restructuring plan. NRG Energy submitted this plan on November 4, 2002 and continues to work with its lenders and advisors on an overall restructuring of its debt (see further discussion below). The November 15, 2002 deadline of the second CCEL passed without NRG Energy posting the required collateral. NRG Energy and the secured project lenders continue to work towards a plan of restructuring.

In August 2002, NRG Energy retained financial and legal restructuring advisors to assist its management in the preparation of a comprehensive financial and operational restructuring. NRG Energy and its advisors have been meeting regularly to discuss restructuring issues with an ad hoc committee of its bondholders and a steering committee of its bank lenders (the Ad Hoc Creditors Committees).

To aid in the design and implementation of a restructuring plan, in the fall of 2002, NRG Energy prepared a comprehensive business plan and forecast. Anticipating that NRG Energy's creditors will own all or substantially all of NRG Energy's equity interests after implementing the restructuring plan, any plans and efforts to integrate NRG Energy's business operations with those of Xcel Energy were terminated. Using commodity, emission and capacity prices provided by an independent energy consulting firm to develop forecasted cash flow information, management concluded that the forecasted free cash flow available to NRG Energy after servicing project level obligations will be insufficient to service recourse debt obligations at the NRG Energy corporate level. Based on that forecast, it is anticipated that NRG Energy will remain in default of the various corporate level debt obligations discussed more fully herein.

Based on this information and in consultation with Xcel Energy and its financial and legal restructuring advisors, NRG Energy prepared a comprehensive financial restructuring plan. In November 2002, NRG Energy and Xcel Energy presented the plan to the Ad Hoc Creditors Committees. The restructuring plan has served as a basis for continuing negotiations between the Ad Hoc Creditors Committees, NRG Energy and Xcel Energy related to a consensual plan of reorganization for NRG Energy. Negotiations have progressed substantially since the initial plan was presented in November. If an agreement to a consensual plan of reorganization is negotiated and NRG Energy is unable to effectuate the restructuring through an exchange offer or other non-bankruptcy mechanism, it is highly probable that such plan would be implemented through the commencement of a voluntary Chapter 11 bankruptcy proceeding. There can be no assurance that NRG Energy's creditors, including, but not limited to the Ad Hoc Committees, will agree to the terms of the consensual plan of reorganization currently being negotiated. In addition, there can be no guarantee that lenders will not seek to enforce their remedies under the various loan agreements, provided that any such attempted enforcement would be subject to the automatic stay and other relevant provisions of the bankruptcy code. The commencement of a voluntary Chapter 11 bankruptcy proceeding without a consensual plan of reorganization would increase the possibility of a prolonged bankruptcy proceeding.

On November 22, 2002, five former NRG Energy executives filed an involuntary Chapter 11 petition against NRG Energy in U.S. Bankruptcy Court for the District of Minnesota. Under provisions of federal law, NRG Energy has the full authority to continue to operate its business as if the involuntary petition had not been filed unless and until a court hearing on the validity of the involuntary petition is resolved adversely to NRG Energy. On December 16, 2002, NRG Energy responded to the involuntary petition, contesting the petitioners' claims and filing a motion to dismiss the case. On February 19, 2003, NRG Energy announced that it had reached a settlement with the petitioners. The U.S. Bankruptcy Court for the District of Minnesota will hear NRG Energy's motion to consider the settlement and/or dismiss the involuntary petition. Two of NRG Energy's creditors have objected to the motion to dismiss. There can be no assurance that the court will dismiss the involuntary petition. The Bankruptcy Court has discretion in the review of the settlement agreement. There is a risk that the Bankruptcy Court may, among other things, reject the settlement agreement or enter an order for relief under Chapter 11.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On March 26, 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with holders of most of NRG Energy's long-term notes and the steering committee representing NRG's bank lenders. The settlement is subject to certain conditions, including the approval of at least a majority in dollar amount of the NRG Energy bank lenders and long-term noteholders and definitive documentation. There can be no assurance that such approvals will be obtained. The terms of the settlement call for Xcel Energy to make payments to NRG Energy over the next 13 months totaling up to \$752 million for the benefit of NRG Energy's creditors in consideration for their waiver of any existing and potential claims against Xcel Energy. Under the settlement, Xcel Energy will make the following payments: (i) \$350 million at or shortly following the consummation of a restructuring of NRG Energy's debt. It is expected this payment would be made prior to year-end 2003; (ii) \$50 million on January 1, 2004. At Xcel Energy's option, it may fill this requirement with either cash or Xcel Energy common stock or any combination thereof; and (iii) \$352 million in April 2004.

NRG Energy expects to have cash available for operations through 2003. This forecast does not assume further investment by Xcel Energy or modification of NRG Energy's current debt obligations. In the event that NRG Energy is unable to work through the issues as described above and is unable to obtain adequate financing on terms acceptable to NRG Energy to continue its operations, NRG Energy may have to file bankruptcy. NRG Energy's inability to obtain timely waivers and avoid defaults on their credit obligations could lead to additional involuntary bankruptcy proceedings. In any case, there is substantial doubt as to NRG Energy's ability to continue as a going concern.

The accompanying financial statements have been prepared assuming NRG Energy will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include NRG Energy's accounts and those of its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Accounting policies for all of NRG Energy's operations are in accordance with accounting principles generally accepted in the United States of America. As discussed in Note 10, NRG Energy has investments in partnerships, joint ventures and projects. Investments in such businesses in which NRG Energy does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for under the equity method. Earnings from equity in international investments are recorded net of foreign income taxes. The more significant accounting policies are as follows:

Nature of operations

The principal business of NRG Energy is the ownership and operation, through its subsidiaries, of power generation facilities and the sale of energy, capacity and related products in the United States and internationally. NRG Energy also has investments in alternative energy, thermal and resource recovery facilities.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments (primarily commercial paper) with an original maturity of three months or less at the time of purchase.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted Cash

Restricted cash consists primarily of cash collateral for letters of credit issued in relation to project development activities, funds held in trust accounts to satisfy the requirements of certain debt agreements and funds held within NRG Energy's projects that are restricted in their use.

Inventory

Inventory is valued at the lower of weighted average cost or market and consists principally of fuel oil, spare parts, coal, kerosene, emission allowance credits and raw materials used to generate steam.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or the present value of minimum lease payments for assets under capital leases. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance that do not improve or extend the life of the respective asset are charged to expense as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Facilities and improvements	10-45 years
Machinery and equipment	7-30 years
Office furnishings and equipment	3-5 years

The assets and related accumulated depreciation amounts are adjusted for asset retirements and disposals with the resulting gain or loss included in operations. NRG Energy expenses all repair and maintenance as incurred, including planned major maintenance.

Asset Impairments

Long-lived assets that are held and used are reviewed for impairment whenever events or changes in circumstances indicate carrying values may not be recoverable. Such reviews were performed in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No. 144) in 2002 and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (SFAS No. 121) in prior years. An impairment loss is recognized if the total future estimated undiscounted cash flows expected from an asset is less than its carrying value. An impairment charge is measured by the difference between an asset's carrying amount and fair value. Fair values are determined by a variety of valuation methods, including appraisals, sales prices of similar assets and present value techniques.

Investments accounted for by the equity method are reviewed for impairment in accordance with APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." APB Opinion No. 18 requires that a loss in value of an investment that is other than a temporary decline should be recognized. NRG Energy identifies and measures loss in value of equity investments based upon a comparison of fair value to carrying value.

Assets Held for Sale

Long-lived assets are classified as held for sale when all of the required criteria specified in SFAS No. 144 are met. These criteria include, among others, existence of a qualified plan to dispose of an asset, an assessment that completion of a sale within one year is probable and approval of the appropriate level of management and board of directors. Assets held for sale are reported at the lower of the asset's carrying amount or fair value less cost to sell.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 asset under construction is ready for its intended use or when a project is terminated or construction ceased. Capitalized interest was approximately \$64.8 million, \$27.2 million, and \$2.7 million in 2002, 2001 and 2000, respectively.

Capitalized Project Costs

Development costs and capitalized project costs include third party professional services, permits, and other costs that are incurred incidental to a particular project. Such costs are expensed as incurred until an acquisition agreement or letter of intent is signed, and the project has been approved by NRG Energy's Board of Directors. Additional costs incurred after this point are capitalized. When a project begins operation, previously capitalized project costs are reclassified to equity investments in affiliates or property, plant and equipment and amortized on a straight-line basis over the lesser of the life of the project's related assets or revenue contract period. Capitalized costs are charged to expense if a project is abandoned or management otherwise determines the costs to be unrecoverable.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized as interest expense on a basis which approximates the effective interest method over the terms of the related debt.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Effective January 1, 2002, NRG Energy implemented SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). Pursuant to SFAS No. 142, goodwill is not amortized but is subject to periodic impairment testing. Prior to 2002, goodwill was amortized on a straight line basis over 20 to 30 years.

Intangible assets represent contractual rights held by NRG Energy. Intangible assets are amortized over their economic useful life and reviewed for impairment on a periodic basis. Non-amortized intangible assets are tested for impairment annually and on an interim basis if an event or circumstance occurs between annual tests that might reduce the fair value of that asset.

Income Taxes

Following the completion of Xcel Energy's exchange offer on June 3, 2002, NRG and subsidiaries can rejoin the Xcel Energy's group for federal income tax purposes provided the Internal Revenue Service (IRS) consents. Because it is likely that Xcel Energy will not request IRS consent to consolidate NRG Energy for income tax purposes in 2002, the income tax provision for NRG Energy, is based on a consolidated NRG Energy group through June 3, 2002 and separate corporate tax returns starting June 4, 2002 as discussed in Note 15. On a stand-alone basis, NRG Energy does not have the ability to recognize all tax benefits that may ultimately accrue from losses occurring in 2002. Deferred tax benefits have been recorded only to the extent a valuation allowance was not considered necessary. A current tax benefit has been recorded to the extent the 2002 tax losses can be carried back. Current tax expense has been recorded for those entities generating positive taxable income on a stand-alone basis in 2002.

In March 2001, NRG Energy was deconsolidated from Xcel Energy for federal income tax purposes. Prior to March 13, 2001, NRG Energy was included in the consolidated tax returns of Xcel Energy. NRG Energy calculated its income tax provision on a separate return basis under a tax sharing agreement with Xcel Energy. Current Federal and certain state income taxes were payable to or receivable from Xcel Energy.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets to the amount more likely than not to be realized.

Revenue Recognition

NRG Energy is primarily an electric generation company, operating a portfolio of majority-owned electric generating plants and certain plants in which its ownership interest is 50% or less and which are accounted for under the equity method. In connection with its electric generation business, NRG Energy also produces thermal energy for sale to customers, principally through steam and chilled water facilities. NRG Energy also collects methane gas from landfill sites, which is used for the generation of electricity. In addition, NRG Energy sells small amounts of natural gas and oil to third parties.

Electrical energy revenue is recognized upon delivery to the customer. Capacity and ancillary revenue is recognized when contractually earned. Disputed revenues are not recorded in the financial statements until disputes are resolved and collection is assured.

Revenue from long-term power sales contracts that provide for higher pricing in the early years of the contract are recognized in accordance with Emerging Issues Task Force Issue No. 91-6, "Revenue Recognition of Long Term Power Sales Contracts." This results in revenue deferrals and recognition on a levelized basis over the term of the contract.

NRG Energy provides contract operations and maintenance services to some of its non-consolidated affiliates. Revenue is recognized as contract services are performed.

NRG Energy uses the equity method of accounting to recognize as revenue its pro rata share of the net income or loss of unconsolidated investments.

NRG Energy recognizes other income for interest income on loans to affiliates as the interest is earned and realizable.

Foreign Currency Translation and Transaction Gains and Losses

The local currencies are generally the functional currency of NRG Energy's foreign operations. Foreign currency denominated assets and liabilities are translated at end-of-period rates of exchange. Revenues, expenses 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 and are not included in the determination of the results of operations. Foreign currency transaction gains or losses are reported in results of operations. NRG Energy recognized foreign currency transaction losses of \$10.4 million, gains of \$1.8 million and losses of \$0.6 million in 2002, 2001 and 2000, respectively.

Concentrations of Credit Risk

Financial instruments which potentially subject NRG Energy to concentrations of credit risk consist primarily of cash, accounts receivable, notes receivable and investments in debt securities. Cash accounts are generally held in Federally insured banks. Accounts receivable, notes receivable and derivative instruments are concentrated within entities engaged in the energy industry. These industry concentrations may impact NRG Energy's overall exposure to credit risk, either positively or negatively, in that the customers may be similarly

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

affected by changes in economic, industry or other conditions. Receivables are generally not collateralized; however, NRG Energy believes the credit risk posed by industry concentration is offset by the diversification and creditworthiness of its customer base.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, receivables, accounts payables, and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as the effective rates for these instruments are comparable to market rates at year end, including current portions. The fair value of long term debt is estimated based on quoted market prices and similar instruments with equivalent credit quality.

Stock Based Compensation

In 1995, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123, "Accounting for Stock Based Compensation." NRG Energy has elected to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, NRG Energy records expense, in an amount equal to the excess of the quoted market price on the grant date over the option price. Such expense is recognized at the grant date for options fully vested. For options with a vesting period, the expense is recognized over the vesting period. As of June 3, 2002, all stock options were converted into Xcel Energy stock options.

Use of Estimates

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

In recording transactions and balances resulting from business operations, NRG Energy uses estimates based on the best information available. Estimates are used for such items as plant depreciable lives, tax provisions, un-collectible accounts, and actuarially determined benefit costs and the valuation of long-term energy commodities contracts, among others. In addition, estimates are used to test long-lived assets for impairment and to determine fair value of impaired assets. 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.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The liability is initially capitalized as part of the cost of the related tangible long-lived asset and thus depreciated over the asset's useful life. Accretion of the liabilities due to the passage of time will be an operating expense. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes written or oral contracts, including obligations arising under the doctrine of promissory estoppel. NRG Energy is required to adopt SFAS No. 143 on January 1, 2003. NRG Energy is in the process of evaluating the impact of adopting SFAS No. 143 on its financial condition.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In April 2002, the FASB issued SFAS No. 145, *“Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections,”* (SFAS No. 145) that supercedes previous guidance for the reporting of gains and losses from extinguishment of debt and accounting for leases, among other things. SFAS No. 145 requires that only gains and losses from the extinguishment of debt that meet the requirements for classification as “Extraordinary Items,” as prescribed in Accounting Principles Board Opinion No. 30, should be disclosed as such in the financial statements. Previous guidance required all gains and losses from the extinguishment of debt to be classified as “Extraordinary Items.” This portion of SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with restatement of prior periods required. NRG Energy has no extraordinary gains or losses resulting from extinguishment of debt during the three years ended December 31, 2002 that will require restatement upon adoption of this part of the statement.

In addition, SFAS No. 145 amends SFAS No. 13, *“Accounting for Leases,”* (SFAS No. 13) as it relates to accounting by a lessee for certain lease modifications. Under SFAS No. 13, if a capital lease is modified in such a way that the change gives rise to a new agreement classified as an operating lease, the assets and obligation are removed, a gain or loss is recognized and the new lease is accounted for as an operating lease. Under SFAS No. 145, capital leases that are modified so the resulting lease agreement is classified as an operating lease are to be accounted for under the sale-leaseback provisions of SFAS No. 98, *“Accounting for Leases.”* These provisions of SFAS No. 145 were effective for transactions occurring after May 15, 2002. Adoption of SFAS No. 145 is not expected to have a material impact on NRG Energy.

In June 2002, the FASB issued SFAS No. 146, *“Accounting for Costs Associated with Exit or Disposal Activities,”* (SFAS No. 146), SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, *“Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).”* SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS No. 144, *“Accounting for the Impairment or Disposal of Long-Lived Assets.”* The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor’s fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for the obligations the guarantor has undertaken in issuing the guarantee. See Note 14.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN No. 46). FIN No. 46 requires an enterprise’s consolidated financial statements to include subsidiaries in which the enterprise has a controlling interest. Historically, that requirement has been applied to subsidiaries in which an enterprise has a majority voting interest, but in many circumstances the enterprise’s consolidated financial statements do not include the consolidation of variable interest entities with which it has similar relationships but no majority voting interest. Under FIN No. 46 the voting interest approach is not effective in identifying controlling financial interest. Assets of entities consolidated upon adoption of the new standard will be initially recorded at their carrying amounts at the date the requirements of the new rule first apply. If determining carrying amounts as required is impractical, then the assets are to be measured at fair value the first date the new rule applies. Any difference between the net amount of any previously recognized interest in the newly consolidated entity should be recognized as the cumulative effect of an accounting

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

change. FIN No. 46 becomes effective in the third quarter of 2003. Fin No. 46 is not expected to have a significant impact on NRG Energy.

Reclassifications

Certain prior-year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income or total stockholder's equity as previously reported.

Note 3 — Special Charges

The credit rating downgrades, defaults under certain credit agreements, increased collateral requirements and reduced liquidity experienced by NRG Energy during the third quarter of 2002 were "triggering events" which, pursuant to SFAS No. 144, required the Company to review the recoverability of its long-lived assets. As a result of this review, NRG Energy recorded asset impairment charges during 2002 totaling \$2.5 billion for various projects in operation, under construction and in development as shown in the table below.

To determine whether an asset was impaired, NRG Energy compared asset carrying values to total future estimated undiscounted cash flows. Separate analyses were completed for assets or groups of assets at the lowest level for which identifiable cash flows were largely independent of the cash flows of other assets and liabilities. The estimates of future cash flow included only future cash flows, net of associated cash outflows, directly associated with and expected to arise as a result of NRG Energy's assumed use and eventual disposition of the asset. Cash flow estimates associated with assets in service were based on the asset's existing service potential, whereas assets under construction or in development were based on expected service potential when complete. The cash flow estimates included probability weightings to consider possible alternative courses of action and outcomes, given NRG Energy's financial position and liquidity constraints.

If an asset was determined to be impaired based on the cash flow testing performed, an impairment loss was recorded to write down the asset to its fair value. Estimates of fair value were based on appraisals, prices for similar assets and present value techniques.

Special charges from continuing operations included in Operating Expenses include the following:

	December 31,		
	2002	2001	2000
	(In thousands)		
Asset impairments	\$2,544,778	\$ —	\$ —
Severance and other charges (see Note 4)	111,315	—	—
Total special charges	\$2,656,093	\$ —	\$ —

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Special Charges included the following asset impairments in 2002:

<u>Project Name</u>	<u>Project Status</u>	<u>Pre-tax Charge(1)</u>	<u>Fair Value Basis</u>
		(In thousands)	
Nelson	Terminated	\$ 467,523	Similar asset prices
Pike	Terminated — chapter 7 involuntary bankruptcy petition filed in October 2002	402,355	Similar asset prices
Bourbonnais	Terminated	264,640	Similar asset prices
Meriden	Terminated	144,431	Similar asset prices
Brazos Valley	Foreclosure completed in January 2003	102,900	Projected cash flows
Kendall, Batesville & other expansion Projects	Terminated	120,006	Projected cash flows
Langage (UK)	Terminated	42,333	Estimated market price
Turbines & other costs	Equipment being marketed	701,573	Similar asset prices
Subtotal		2,245,761	
Operating projects			
Audrain	Operating at a loss	66,022	Projected cash flows
Somerset	Operating at a loss	49,289	Projected cash flows
Bayou Cove	Operating at a loss	126,528	Projected cash flows
Other	Operating at a loss	57,178	Projected cash flows
Subtotal		299,017	
Total Impairment Charges		\$2,544,778	

(1) Certain amounts have been combined from impairments disclosed in the September 30, 2002, Form 10-Q for turbines and other items.

All of these impairment charges relate to assets considered held for use under SFAS No. 144. Fair values determined by similar asset prices reflect NRG Energy's current estimate of recoverability from expected marketing of project assets. Fair values determined by estimated market price represent market bids or appraisals received that NRG Energy believes is best reflective of value. For fair values determined by projected cash flows, the fair value represents a discounted cash flow amount over the remaining life of each project that reflects project-specific assumptions for long-term power pool prices, escalated future project operating costs, and expected plant operation given assumed market conditions.

Additional asset impairments may be recorded by NRG Energy in periods subsequent to December 31, 2002, given the changing business conditions and the resolution of the pending restructuring plan. Management is unable to determine the possible magnitude of any additional asset impairments, but they could be material.

Note 4 — Severance and Other Charges

NRG Energy recorded severance charges of \$25.6 million for employees terminated during 2002 and \$18.4 million remains accrued. Approximately \$2.5 million of the accrual was reported in the December 31,

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

2002 balance sheet as part of post retirement and other benefit obligations, the remaining amount is recorded as accrued salaries, benefits and related costs.

The following table summarizes the activity related to accrued salaries, benefits and related costs for the twelve months ended December 31, 2002:

	Accrued Salaries, Benefits and Related Costs
	(In thousands)
Balance at December 31, 2001	\$ —
Accruals	23,102
Payments	(4,738)
Balance at December 31, 2002	\$ 18,364

In addition, NRG Energy has engaged financial advisors, legal advisors, and other consultants to assist with restructuring NRG Energy's operations. Costs for these professional services are expensed as incurred.

Note 5 — Discontinued Operations and Assets Held for Sale

Pursuant to the requirements of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," NRG Energy has classified and is accounting for certain of its assets as held-for-sale at December 31, 2002. SFAS No. 144 requires that assets held for sale be valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions NRG Energy's management considered cash flow analyses, bids and offers related to those assets and businesses. This amount is included in loss from discontinued operations in the accompanying Statement of Operations. In accordance with the provisions of SFAS No. 144, assets held for sale will not be depreciated commencing with its classification as such.

Discontinued Operations

During 2002, NRG Energy entered into agreements to dispose of four consolidated international projects and one consolidated domestic project. Sales of four of the projects closed during 2002 (Bulo Bulo, Csepel, Entrade and Crockett Cogeneration) and one project (Killingholme) was sold in January 2003. In addition, NRG Energy has committed to a plan to sell a sixth project (Hsin Yu). Sale of this project is expected to be completed in 2003.

The financial results for all of these businesses have been accounted for as discontinued operations in 2002. Accordingly, operating results of prior periods have been restated to report the operations as discontinued.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized results of operations of the discontinued operations were as follows:

Description	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
		(In thousands)	
Operating revenues	\$ 729,408	\$ 597,181	\$347,848
Operating & other expenses	1,300,131	544,837	310,007
Pre-tax (loss)/income from operations of discontinued components	(570,723)	52,344	37,841
Income tax (benefit)/expense	(8,296)	5,352	5,835
(Loss)/income from operations of discontinued components	(562,427)	46,992	32,006
Disposal of discontinued components — pre-tax gain (net)	2,814	—	—
Income tax (benefit)	(2,992)	—	—
Disposal of discontinued components — gain (net)	5,806	—	—
Net (loss)/income on discontinued operations	\$ (556,621)	\$ 46,992	\$ 32,006

Operating and other expenses for 2002 shown in the table above included asset impairment charges of approximately \$599.7 million, comprised of approximately \$477.9 million for the Killingholme project and \$121.8 million for the Hsin Yu project.

The components of income tax (benefit) expense attributable to discontinued operations were as follows:

Discontinued Operations:	2002	2001	2000
			(Thousands of dollars)
Current			
U.S.	\$ 950	\$ 181	\$ 246
Foreign	(6,939)	(4,478)	(2,318)
	(5,989)	(4,297)	(2,072)
Deferred			
U.S.	(894)	209	225
Foreign	(1,413)	9,440	7,682
	(2,307)	9,649	7,907
Disposal of discontinued components — gain (net)			
U.S.	(2,992)	—	—
Foreign	—	—	—
	(2,992)	—	—
Total income tax (benefit) expense	\$(11,288)	\$ 5,352	\$ 5,835

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The assets and liabilities of the discontinued operations are reported in the December 31, 2002 and 2001 balance sheets as held for sale. The major classes of assets and liabilities held for sale by geographic area are as follows at December 31:

2002	Power Generation		
	Europe	Asia Pacific	Total
	(Thousands of dollars)		
Cash	\$ 23,172	\$ 739	\$ 23,911
Receivables, net	24,905	3,315	28,220
Derivative instruments valuation	29,795	—	29,795
Other current assets	18,384	8,225	26,609
Current assets held for sale	\$ 96,256	\$ 12,279	\$ 108,535
PP&E, net	\$ 231,048	\$ 43,496	\$ 274,544
Derivative instruments valuation	87,803	—	87,803
Other non current assets	6,984	10,441	17,425
Non current assets held for sale	\$ 325,835	\$ 53,937	\$ 379,772
Current portion of long-term debt	\$ 360,122	\$ 85,534	\$ 445,656
Accounts payable — trade	40,250	15,457	55,707
Other current liabilities	18,120	618	18,738
Current liabilities held for sale	\$ 418,492	\$ 101,609	\$ 520,101
Long-term debt	\$ —	\$ 73	\$ 73
Deferred income tax	125,277	4,363	129,640
Derivative instruments valuation	12,302	—	12,302
Other non current liabilities	—	13,947	13,947
Non current liabilities held for sale	\$ 137,579	\$ 18,383	\$ 155,962

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2001	Power Generation				Total
	North America	Europe	Asia Pacific	Other Americas	
	(Thousands of dollars)				
Cash	\$ 20,251	\$ 74,509	\$ 832	\$ 3,579	\$ 99,171
Receivables, net	50,320	66,110	5,072	7,718	129,220
Derivative instruments valuation	—	38,996	—	—	38,996
Other current assets	3,324	30,225	15,523	162	49,234
Current assets held for sale	\$ 73,895	\$ 209,840	\$ 21,427	\$ 11,459	\$ 316,621
PP&E, net	\$225,926	\$ 916,768	\$172,056	\$68,940	\$1,383,690
Derivative instruments valuation	—	83,588	—	—	83,588
Other non current assets	35,576	12,195	15,128	1	62,900
Non current assets held for sale	\$ 261,502	\$1,012,551	\$187,184	\$68,941	\$ 1,530,178
Current portion of long-term debt	\$234,497	\$ 18,410	\$ 18,185	\$18,177	\$ 289,269
Accounts payable — trade	6,335	57,878	31,045	2,396	97,654
Other current liabilities	22,848	19,340	63	259	42,510
Current liabilities held for sale	\$263,680	\$ 95,628	\$ 49,293	\$20,832	\$ 429,433
Long-term debt	\$ —	\$ 489,630	\$ 72,297	\$ —	\$ 561,927
Deferred income tax	863	142,053	4,707	6,950	154,573
Derivative instruments valuation	12,792	2,339	—	—	15,131
Other non current liabilities	14,021	—	33,843	3,802	51,666
Non current liabilities held for sale	\$ 27,676	\$ 634,022	\$ 110,847	\$ 10,752	\$ 783,297

Included in other non-current assets held for sale is approximately \$27.0 million (net of \$3.6 million of amortization) of goodwill and \$11.0 million (net of \$1.9 million of amortization) of intangibles as of December 31, 2001. As of December 31, 2002, there are no amounts of goodwill or intangibles included in non-current assets held for sale.

Bulo Bulo — In June 2002, NRG Energy began negotiations to sell its 60% interest in Compania Electrica Central Bulo Bulo S.A. (Bulo Bulo), a Bolivian corporation. The transaction reached financial close in the fourth quarter of 2002 resulting in cash proceeds of \$10.9 million (net of cash transferred of \$8.6 million) and a loss of \$10.6 million. NRG Energy accounted for the results of operations of Bulo Bulo as part of its power generation segment within the Other Americas region.

Crockett Cogeneration Project — In September 2002, NRG Energy announced that it had reached an agreement to sell its 57.7% interest in the Crockett Cogeneration Project, a 240 MW natural gas fueled cogeneration plant near San Francisco, California, to Energy Investment Fund Group, an existing LP, and a unit of GE Capital. In November 2002, the sale closed and NRG Energy realized net cash proceeds of approximately \$52.1 million (net of cash transferred of \$0.2 million) and a loss on disposal of approximately \$11.5 million. NRG Energy accounted for the results of operations of Crockett Cogeneration as part of its power generation segment within North America.

Csepel and Entrade — In September 2002, NRG Energy announced that it had reached agreements to sell its Csepel power generating facilities (located in Budapest, Hungary) and its interest in Entrade (an electricity trading business headquartered in Prague) to Atel, an independent energy group headquartered in

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Switzerland. The sales of Csepel and Entrade closed before year-end and resulted in cash proceeds of \$92.6 million (net of cash transferred of \$44.1 million) and a gain of approximately \$24.0 million. NRG Energy accounted for the results of operations of Csepel and Entrade as part of its power generation segment within Europe.

Killingholme — During third quarter 2002 NRG Energy recorded an impairment charge of \$477.9 million. In January 2003, NRG Energy completed the sale of its interest in the Killingholme project to its lenders for a nominal value and forgiveness of outstanding debt with a carrying value of approximately \$360.1 million at December 31, 2002. The sale of NRG Energy's interest in the Killingholme project and the release of debt obligations will result in a gain on sale in the first quarter of 2003 of approximately \$182.3 million. The gain results from the write-down of the project's assets in the third quarter of 2002 below the carrying value of the related debt. NRG Energy accounted for the results of operations of Killingholme as part of its power generation segment within Europe.

Hsin Yu — During 2002 NRG Energy committed to sell its ownership interest in Hsin Yu located in Taiwan. During the third quarter of 2002, NRG Energy recorded an impairment charge of approximately \$121.8 million for the Hsin Yu project. NRG Energy owns 60% with one other party owning the remaining minority interest. At the present time, NRG Energy is negotiating to sell its interest in the project to the minority owner for a nominal value plus assumption of its future funding obligations. No assurance can be provided that the negotiations will be successful and, if not, NRG Energy is committed to pursue other sales alternatives. NRG Energy accounted for the results of operations of Hsin Yu as part of its power generation segment within Asia Pacific.

Note 6 — Write Downs and Losses on Sales of Equity Method Investments

Write downs and losses on sales of equity method investments recorded in operating expenses in the consolidated statement of operations includes the following:

	December 31,		
	2002	2001	2000
	(In thousands)		
Write downs of equity method investments	\$138,837	\$ —	\$ —
Losses on sales of equity method investments	57,355	—	—
Total	\$196,192	\$ —	\$ —

Write downs of equity method investments

Loy Yang — Based on a third party market valuation and bids received in response to marketing the investment for possible sale, NRG Energy recorded a write down of its investment of approximately \$53.6 million in the third quarter of 2002. This write-down reflected management's belief that the decline in fair value of the investment was other than temporary.

During the fourth quarter of 2002, NRG Energy and the other owners of the Loy Yang project engaged in a joint marketing of the project for possible sale. In connection with these efforts, a new independent market valuation analysis was completed. Based on the new market valuation and negotiations with a potential purchaser, NRG Energy recorded an additional write-down of its investment in the amount of \$57.8 million in the fourth quarter of 2002. At December 31, 2002 the carrying value of the investment in Loy Yang is approximately \$72.9 million. Accumulated other comprehensive loss at December 31, 2002 includes a reduction for foreign currency translation losses of approximately \$76.7 million related to Loy Yang. The foreign currency translation losses will continue to be included as a component of accumulated other comprehensive (loss) until NRG Energy commits to a plan to dispose of its investment, as required by EITF

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Issue No. 01-05. NRG Energy accounts for the results of operations of its investment in Loy Yang as part of its power generation segment within the Asia Pacific region.

Kondapalli — On January 30, 2003, NRG Energy signed a sale agreement with the Genting Group of Malaysia (Genting) to sell NRG's 30% interest in Lanco Kondapalli Power Pvt Ltd (Kondapalli) and a 74% interest in Eastern Generation Services (India) Pvt Ltd (the O&M company). Kondapalli is based in Hyderabad, Andhra Pradesh, India, and is the owner of a 368 MW natural gas fired combined cycle gas turbine. The sale to Genting has not yet been completed, although completion is expected in early second quarter of 2003. NRG Energy's equity in the project is \$35.2 million, and the proposed transaction will result in an after-tax loss to NRG Energy. In the fourth quarter of 2002, NRG Energy wrote down its investment in Kondapalli by \$12.7 million due to recent developments related to the sale which indicate an impairment of its book value that is considered by NRG Energy to be other than temporary. NRG Energy accounts for the results of operations of its investment in Kondapalli as part of its power generation segment within the Asia Pacific region.

Powersmith — During the fourth quarter of 2002, NRG Energy wrote down its investment in Powersmith in the amount of approximately \$3.4 million due to recent developments which indicate impairment of its book value that is considered by NRG Energy to be other than temporary. NRG Energy accounts for the results of operations of these investments as part of its power generation segment within the North America region.

Other — During 2002, NRG Energy wrote down other equity investments in the amount of approximately \$11.3 million due to recent developments which indicate impairment of their book value that is considered by NRG Energy to be other than temporary. NRG Energy accounted for the results of operations of these investments as part of its alternative energy segment.

Sales of equity method investments

During 2002, NRG Energy entered into sales agreements to dispose of its non-controlling interests in seven projects that were accounted for by the equity method. As described below, six of these transactions closed during the year and one closed in January 2003. NRG Energy's share of each project's operating results through the respective disposal date is reported as equity in earnings from unconsolidated investments in the consolidated statement of operations. Losses on sales of equity method investments in the aggregate amount of approximately \$57.4 million included in operating expenses is comprised of the net losses resulting from the seven disposal transactions.

Energy Development Limited — On July 25, 2002, NRG Energy announced it had signed an agreement for the sale of its ownership interests in an Australian energy company, Energy Development Limited (EDL). EDL is a listed Australian energy company engaged in the development and management of an international portfolio of projects with a particular focus on renewable and waste fuels. In August 2002, NRG Energy received proceeds of \$78.5 million (AUS), or approximately \$43.9 million (U.S.), in exchange for its ownership interest in EDL with the closing of the transaction. During the second quarter of 2002, NRG Energy recorded a loss of approximately \$14.2 million on the sale. NRG Energy accounted for the results of operations of its investment in EDL as part of its power generation segment within the Asia Pacific region.

Collinsville Power Station — In August 2002, NRG Energy announced that it had completed the sale of its 50% interest in the 192 MW Collinsville Power Station in Australia, to its partner, a subsidiary of Transfield Services Limited. NRG Energy's proceeds from the sale amounted to \$8.6 million (AUS), or approximately \$4.8 million (USD). NRG Energy recorded a loss of approximately \$3.6 million (USD) from the sale during 2002. NRG Energy accounted for the results of operations of its investment in Collinsville Power Station as part of its power generation segment within the Asia Pacific region.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

ECKG — In September 2002, NRG Energy announced that it had reached agreement to sell its 44.5% interest in the ECKG power station in connection with its Csepel power generating facilities, and its interest in Entrade, an electricity trading business, to Atel, an independent energy group headquartered in Switzerland. The transaction, closed in January 2003 and resulted in cash proceeds of \$67.0 million and a net loss of \$2.1 million. NRG Energy accounted for the results of operations of its investment in ECKG as part of its power generation segment within Europe.

Sabine River — In September 2002, NRG Energy agreed to transfer its indirect 50% interest in SRW Cogeneration LP (SRW) to its partner in SRW, Conoco, Inc. in consideration for Conoco's agreement to terminate or assume all of the obligations of NRG Energy in relation to SRW. SRW is a cogeneration facility in Orange County, Texas. NRG Energy recorded a loss of approximately \$48.4 million from the transfer during the quarter ended September 30, 2002. The transaction closed on November 5, 2002. NRG Energy accounted for the results of operations of its investment in SRW as part of its power generation segment within North America.

Mt. Poso — In September 2002, NRG Energy agreed to sell its 39.5% indirect partnership interest in the Mt. Poso Cogeneration Company, a California limited partnership (Mt. Poso) for approximately \$10 million to Red Hawk Energy, LLC. Mt. Poso owns a 49.5 MW coal-fired cogeneration power plant and thermally enhanced oil recovery facility located 20 miles north of Bakersfield, California. The sale closed in November 2002 resulting in a loss of approximately \$1.0 million. NRG Energy accounted for the results of operations of its investment in Mt. Poso as part of its power generation segment within North America.

Kingston — In December, 2002, NRG Energy completed the sale of its 25% interest in Kingston Cogeneration LP, based near Toronto, Canada to Northland Power Income Fund. NRG Energy received net proceeds of \$15.0 million resulting in a gain on sale of approximately \$9.9 million. NRG Energy accounted for the results of operations of its investment in Kingston as part of its power generation segment.

NEO MESI LLC — On November 26, 2002, NRG Energy completed the transfer of its 50% interest in MESI Fuel Station No. 1, LLC ("MESI") to Power Fuel Partners ("PFP") in exchange for the assumption by PFP of all NEO MESI LLC's ("NEO MESI") obligations under the MESI operating agreement, currently estimated at \$21.6 million. MESI Fuel Station No. 1 is a facility, which produces and sells synthetic fuel (coal briquettes) from the Ken West terminal in Catlettsburg, Kentucky. The transfer did not result in any significant impact on the results of operations. NRG Energy accounted for the results of operations of its investment in MESI Fuel Station No. 1 as part of the NEO Corporation.

Note 7 — Asset Acquisitions

During 2001, NRG Energy completed numerous acquisitions. These acquisitions were recorded using the purchase method of accounting. Accordingly, the purchase prices were allocated to assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Operations of the acquired companies have been included in the operations of NRG Energy since the date of the respective acquisitions.

In January 2001, NRG Energy purchased from LS Power, LLC a 5,339 MW portfolio of operating projects and projects in construction and advanced development that are located primarily in the north central and south central United States. Each facility employs natural gas-fired, combined-cycle technology. Through December 31, 2005, NRG Energy also has the opportunity to acquire ownership interests in an additional 3,000 MW of generation projects developed and offered for sale by LS Power and its partners.

In March 2001, NRG Energy purchased from Cogentrix the remaining 430 MW, or 51.37% interest, in an 837 MW natural gas-fired combined-cycle plant in Batesville, Mississippi. NRG Energy acquired a 48.63% interest in the plant in January 2001 from LS Power.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In June 2001, NRG Energy purchased a 640 MW natural gas-fired power plant in Audrain County, Missouri from Duke Energy North America LLC.

In June 2001, NRG Energy closed on the construction financing for the Brazos Valley generating facility, a 633 MW gas-fired power plant in Fort Bend County, Texas that NRG Energy will build, operate and manage. At the time of the closing, NRG Energy also became the 100% owner of the project by purchasing STEAG Power LLC's 50% interest in the project. During January 2003, NRG Energy transferred its interest in the Brazos Valley project to its creditors.

In June 2001, NRG Energy purchased 1,081 MW of interests in power generation plants from a subsidiary of Conectiv. NRG Energy acquired a 100% interest in the 784 MW coal-fired Indian River Generating Station located near Millsboro, Delaware, and in the 170 MW oil-fired Vienna Generating Station located in Vienna, Maryland. In addition, NRG Energy acquired 64 MW of the 1,711 MW coal-fired Conemaugh Generating Station located approximately 60 miles east of Pittsburgh, Pennsylvania and 63 MW of the 1,711 MW coal-fired Keystone Generating Station located approximately 50 miles east of Pittsburgh, Pennsylvania.

In June 2001, NRG Energy purchased a 389 MW gas-fired power plant and a 116 MW thermal power plant, both of which are located on Csepel Island in Budapest, Hungary, from PowerGen. In April 2001, NRG Energy also purchased from PowerGen its interest in Saale Energie GmbH and its 33.3% interest in MIBRAG BV. By acquiring PowerGen's interest in Saale Energie, NRG Energy increased its ownership interest in the 960 MW coal-fired Schkopau power station located near Halle, Germany from 200 MW to 400 MW.

By acquiring PowerGen's interest in MIBRAG, an integrated energy business in eastern Germany consisting primarily of two lignite mines and three power stations, and following MIBRAG's buy back of the shares NRG Energy acquired from PowerGen, NRG Energy increased its ownership of MIBRAG from 33.3% to 50%. The Washington Group International, Inc., owns the remaining 50% of MIBRAG.

In August 2001, NRG Energy acquired from Indeck Energy Services, Inc. an approximately 2,255 MW portfolio of operating projects and projects in advanced development, that are located in Illinois and upstate New York.

In August 2001, NRG Energy acquired Duke Energy's 77% interest in the approximately 520 MW natural-gas fired McClain Energy Generating Facility located near Oklahoma City, Oklahoma. The Oklahoma Municipal Power Authority owns the remaining 23% interest. The McClain facility commenced operations in June 2001.

In September 2001, NRG Energy acquired a 50% interest in TermoRio SA, a 1,040 MW gas-fired cogeneration facility currently under construction in Rio de Janeiro State, Brazil, from Petroleos Brasileiros SA (Petrobras). Commercial operation of the facility is expected to begin in March 2004. NRG Energy has the option to put its interest in the project back to Petrobras after March 2002 if by that time certain milestones have not been met, including final agreement on the terms of all project documents.

During fiscal year 2001, NRG Energy also acquired other minor interests in projects in Taiwan, India, Peru and the State of Nevada.

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The respective purchase prices have been allocated to the net assets of the acquired entities as follows:

	December 31, 2001
	(In thousands)
Current assets	\$ 307,654
Property plant and equipment	4,173,509
Non-current portion of notes receivable	736,041
Current portion of long term debt assumed	(61,268)
Other current liabilities	(99,666)
Long term debt assumed	(1,586,501)
Deferred income taxes	(149,988)
Other long term liabilities	(202,411)
Other non-current assets and liabilities	(181,473)
	Total purchase price 2,935,897
	Less — Cash balances acquired (excluding restricted cash) (122,780)
	Net purchase price \$ 2,813,117

In July 2001, NRG Energy signed agreements to acquire from Edison Mission Energy a 50% interest in the 375 MW Commonwealth Atlantic gas and oil-fired generating station located near Chesapeake, Virginia, and a 50% interest in the 110 MW James River coal-fired generating facility in Hopewell, Virginia. NRG Energy closed the acquisition of the Commonwealth Atlantic and James River generating facilities in January 2002, for \$11.2 million and \$6.5 million, respectively.

Terminated Asset Acquisitions

Conectiv — In April 2002, NRG Energy terminated its purchase agreement with a subsidiary of Conectiv to acquire 794 MW of generating capacity and other assets, including an additional 66 MW of the Conemaugh Generating Station and an additional 42 MW of the Keystone Generating Station. The purchase price for these assets was approximately \$230 million. No incremental costs were incurred by NRG Energy related to the termination of this agreement.

FirstEnergy — In November 2001, NRG Energy signed purchase agreements to acquire or lease a portfolio of generating assets from FirstEnergy Corporation. Under the terms of the agreements, NRG Energy agreed to pay approximately \$1.6 billion for four primarily coal-fueled generating stations.

On July 2, 2002, the Federal Energy Regulatory Commission (FERC) issued an order approving the transfer of FirstEnergy generating assets to NRG Energy; however, the FERC conditioned the approval on NRG Energy's assumption of FirstEnergy's obligations under a separate agreement between FirstEnergy and the City of Cleveland. These conditions required FirstEnergy to protect the City of Cleveland in the event the generating assets are taken out of service. On July 16, 2002, FERC clarified that the condition would require NRG Energy to provide notice to the City of Cleveland and FirstEnergy if the generating assets were taken out of service and that other obligations remain with FirstEnergy.

On August 8, 2002, FirstEnergy notified NRG Energy that the agreements regarding the transfer of generating assets from FirstEnergy to NRG Energy had been cancelled. FirstEnergy cited the reason for canceling the agreements as an alleged anticipatory breach of certain obligations in the agreements by NRG Energy. On February 27, 2003, FirstEnergy gave NRG Energy notice that it was commencing arbitration against NRG Energy to determine whether NRG Energy is liable to FirstEnergy for failure to close the transaction. NRG Energy believes it has meritorious defenses against FirstEnergy's claim and intends to

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

vigorously defend its position. No amount has been accrued for this contingency. Management is unable to predict the ultimate outcome of this matter, however, an adverse decision could be material to NRG Energy's financial position and results of operations.

Note 8 — Property, Plant and Equipment

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

	2002	2001
	(In thousands)	
Facilities and equipment	\$6,623,479	\$ 5,403,405
Land and improvements	109,306	110,950
Office furnishings and equipment	67,093	27,958
Construction in progress	623,750	2,923,731
	<u>7,423,628</u>	<u>8,466,044</u>
Total property, plant and equipment	7,423,628	8,466,044
Accumulated depreciation	(625,706)	(417,514)
	<u>\$6,797,922</u>	<u>\$ 8,048,530</u>
Net property, plant and equipment	\$6,797,922	\$ 8,048,530

Included in construction in progress at December 31, 2002 is approximately \$248.9 million related to turbines associated with cancelled projects.

Note 9 — Inventory

Inventory, which is stated at the lower of weighted average cost or market, at December 31, consists of:

	2002	2001
	(In thousands)	
Fuel oil	\$ 51,442	\$ 89,315
Coal	84,542	96,193
Kerosene	2,852	1,268
Spare parts	107,641	99,854
Emission credits	14,742	16,995
Natural gas	293	1,395
Other	6,411	4,533
	<u>\$267,923</u>	<u>\$309,553</u>
Total inventory	\$267,923	\$309,553

Note 10 — Investments Accounted for by the Equity Method

NRG Energy 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 Energy 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, generally, in the net income or losses of international projects, are reflected as equity in earnings of unconsolidated affiliates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of certain of NRG Energy's equity-method investments which were in operation at December 31, 2002 is as follows:

Name	Geographic Area	Economic Interest
Gladstone Power Station	Australia	37.50%
Loy Yang Power A	Australia	25.37%
Lanco Kondapalli Power(1)	India	30.00%
MIBRAG GmbH	Europe	50.00%
Schkopau	Europe	41.67%
ECK Generating(1)	Europe	44.50%
El Segundo Power	USA	50.00%
Long Beach Generating	USA	50.00%
Encina	USA	50.00%
San Diego Combustion Turbines	USA	50.00%
Rocky Road Power	USA	50.00%
Mustang	USA	25.00%
Commonwealth Atlantic	USA	50.00%

(1) Pending disposition at December 31, 2002

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:

	2002	2001	2000
		(In thousands)	
Operating revenues	\$ 2,394,256	\$ 3,070,078	\$ 2,349,108
Costs and expenses	2,284,582	2,658,168	1,991,086
Net income	\$ 109,674	\$ 411,910	\$ 358,022
Current assets	\$ 1,069,239	\$ 1,425,175	\$ 1,000,670
Noncurrent assets	\$ 6,853,250	7,009,862	7,470,766
Total assets	\$ 7,922,489	\$ 8,435,037	\$ 8,471,436
Current liabilities	\$ 1,075,785	\$ 1,192,630	\$ 1,094,304
Noncurrent liabilities	\$ 3,861,285	4,533,168	4,306,142
Equity	\$ 2,985,419	2,709,239	3,070,990
Total liabilities and equity	\$ 7,922,489	\$ 8,435,037	\$ 8,471,436
NRG's share of equity	\$ 1,171,726	\$ 1,050,510	\$ 973,261
NRG's share of net income	\$ 68,996	\$ 210,032	\$ 139,364

West Coast Power LLC Summarized Financial Information

NRG Energy has a 50% interest in one company (West Coast Power LLC) that was considered significant as of December 31, 2001, as defined by applicable SEC regulations, and accounts for its investment

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

using the equity method. The following table summarizes financial information for West Coast Power LLC, including interests owned by NRG Energy and other parties for the periods shown below:

Results of Operations

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
		(In millions)	
Operating revenues	\$ 585	\$ 1,562	\$ 875
Operating income	48	345	278
Net income (pre-tax)	34	326	245

Financial Position

	December 31, 2002	December 31, 2001
		(In millions)
Current assets	\$ 255	\$ 401
Other assets	532	659
Total assets	\$ 787	\$ 1,060
Current liabilities	\$ 112	\$ 138
Other liabilities	34	269
Equity	641	653
Total liabilities and equity	\$ 787	\$ 1,060

Note 11 — Related Party Transactions

NRG Energy and Xcel Energy have entered into material transactions and agreements with one another. Certain material agreements and transactions currently existing between NRG Energy and Xcel Energy are described below.

Operating Agreements

NRG Energy has two agreements with Xcel Energy for the purchase of thermal energy. Under the terms of the agreements, Xcel Energy charges NRG Energy for certain costs (fuel, labor, plant maintenance, and auxiliary power) incurred by Xcel Energy to produce the thermal energy. NRG Energy paid Xcel Energy \$8.2 million, \$7.1 million and \$5.5 million in 2002, 2001 and 2000, respectively, under these agreements. One of these agreements expired on December 31, 2002 and the other expires on December 31, 2006.

NRG Energy has a renewable 10-year agreement with Xcel Energy, expiring on December 31, 2006, whereby Xcel Energy agreed to purchase refuse-derived fuel for use in certain of its boilers and NRG Energy agrees to pay Xcel Energy a burn incentive. Under this agreement, NRG Energy received \$1.2 million, \$1.6 million and \$1.5 million from Xcel Energy, and paid \$3.3 million, \$2.8 million and \$2.8 million to Xcel Energy in 2002, 2001 and 2000, respectively.

Administrative Services and Other Costs

NRG Energy has an administrative services agreement in place with Xcel Energy. Under this agreement NRG Energy reimburses Xcel Energy for certain overhead and administrative costs, including benefits

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

administration, engineering support, accounting, and other shared services as requested by NRG Energy. In addition, NRG Energy employees participate in certain employee benefit plans of Xcel Energy as discussed in Note 16. NRG Energy reimbursed Xcel Energy in the amounts of \$21.2 million, \$12.2 million and \$5.9 million, during 2002, 2001 and 2000, respectively, under this agreement.

Natural Gas Marketing and Trading Agreement

NRG Energy has an agreement with e prime, a wholly owned subsidiary of Xcel Energy, under which e prime provides natural gas marketing and trading from time to time and NRG Energy's request. NRG Energy paid \$19.2 million to e prime in 2002.

Amounts owed to Xcel

Included in accounts payable affiliate is approximately \$42.9 of amounts owed to Xcel Energy at December 31, 2002.

Note 12 — Notes Receivable

Notes receivable consists primarily of fixed and variable rate notes secured by equity interests in partnerships and joint ventures. The notes receivable as of December 31, are as follows:

	2002	2001
	(Thousands of dollars)	
Investment in Bonds		
Audrain County, due December 2023, 10%	\$239,930	\$239,930
NRG Pike LLC Jackson County, MS bonds due May 2010, 7.1%	155,477	—
Investment in bonds	395,407	239,930
Notes Receivables		
Triton Coal Co., note due December 2003, non-interest bearing	3,000	—
O'Brien Cogen II note, due 2008, non-interest bearing	627	553
Southern Minnesota-Prairieland Solid Waste, note due 2003, 7%	12	24
Omega Energy, LLC, due 2004, 12.5%	4,145	4,095
Omega Energy, LLC, due 2009, 11%	1,533	1,533
Elk River — GRE, due December 31, 2008, non-interest bearing	1,837	2,098
Bangor Hydro Electric, due October 1, 2002, 5.45%	—	737
SET PERC Investment, LLC, due December 31, 2005, 7%	7,320	2,497
SET Telogia Investment, LLC, due December 31, 2008, 7%	5,858	3,775
Notes receivables and bonds — non-affiliates	419,739	255,242
NEO notes to various affiliates due primarily 2012, prime +2%	9,538	21,087
Kladno Power (No. 1) B.V	2,442	—
Kladno Power (No. 2) B.V. notes to various affiliates, non-interest bearing	46,801	46,635
Termo Rio (via NRGenerating Luxembourg (No. 2) S.a.r.L, due 20 years after plant becomes operational, 19.5%	63,723	46,890
Saale Energie GmbH, indefinite maturity date, 4.75%-7.79%	86,246	79,476
Northbrook Texas LLC, due February 2024, 9.25%	8,967	8,323
Notes receivable — affiliates	217,717	202,411
Reserve for Uncollectable Notes Receivable	(13,178)	—
Other		
Saale Energia GmbH, due August 31, 2021, 13.88% (direct financing lease)	366,417	318,949

Total

\$990,695

\$776,602

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Saale Energie GmbH (SEG) has a long-term electricity supply contract with its sole customer, VEAG. SEG supplies its total available electricity capacity to VEAG. The contract has a term of 25 years. VEAG is obligated to pay on a monthly basis a price that covers the availability of power supply capacity and the operating costs incurred to produce electricity. During 2002 and the nine months subsequent to NRG Energy's consolidation of SEG in March 2001, approximately \$46.0 million and \$56.3 million, respectively, was recognized as revenue under this agreement. NRG Energy expects SEG to recognize revenues of approximately \$40 million each year under this agreement.

Investment in bonds is comprised of marketable debt securities. These securities consist of municipal bonds of Audrain County, Missouri and Jackson County, Mississippi. The Audrain County bonds mature in 2023 and the Jackson County bonds mature in 2010. These investments in bonds are classified as held to maturity and are recorded at amortized cost. The carrying value of these bonds approximates fair value. Both the Audrain County bonds Jackson County bonds are pledged as collateral for the related debt owed to each county. As further described in Note 13 each of these transactions have offsetting obligations.

Note 13 — Debt and Capital Leases

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

	2002	2001
	(Thousands of dollars)	
NRG Debt:		
NRG Energy ROARS, due March 15, 2020, 7.97%	\$ 257,552	\$232,960
NRG Energy senior debentures (corporate units), due May 16, 2006, 6.5%	285,728	284,440
NRG Energy senior notes:		
February 1, 2006, 7.625%	125,000	125,000
July 15, 2006, 6.75%	340,000	340,000
June 15, 2007, 7.50%	250,000	250,000
June 1, 2009, 7.50%	300,000	300,000
September 15, 2010, 8.25%	350,000	350,000
April 1, 2011, 7.75%	350,000	350,000
November 1, 2003, 8.00%	240,000	240,000
April 1, 2031, 8.625%	340,000	340,000
April 1, 2031, 8.625%	160,000	160,000
NRG Debt secured solely by project assets:		
NRG Finance Company I LLC — Construction revolver, due May 2006, various interest rates	1,081,000	697,500
San Francisco Capital lease, due September, 2002, 20.8%	—	11
NRG Processing solutions, capital lease, due November 2004, 9.0%(1)	676	—
Timber Energy Resources, Inc., due December 2002, 7.0%	—	4,620
NRG Pike Energy LLC, due 2010	155,477	—
NRG Energy Center San Diego, LLC promissory note, due June 2003, 8.0%	278	801
NRG Energy Center Pittsburgh LLC, due November 2004, 10.61%(1)	3,050	4,400

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2002	2001
	(Thousands of dollars)	
NRG Energy Center San Francisco LLC, senior secured notes, due November 2004, 10.61%(1)	2,310	3,761
Cahua SA, due various dates through November 2004, various interest rates(1)	22,907	29,106
Various NEO debt due 2005-2008, 9.35%	7,658	23,957
LSP Kendall Energy LLC, due September 2005, 2.65%	495,754	499,500
MidAtlantic Generating LLC, due October 2005, 4.625%	409,201	420,890
NRG McClain due December 31, 2005, 6.75%	157,288	159,885
Camas Power Boiler LP, unsecured term loan, due June 30, 2007, 3.65%(1)	10,896	11,779
COBEE, due July 2007, various interest rates(1)	42,150	51,600
Camas Power Boiler LP, revenue bonds, due August 1, 2007, 3.38%(1)	6,965	9,130
NRG Brazos Valley LLC, due June 30, 2008, 6.75%	194,362	159,750
Energia Pacasmayo S.L.R., due various dates through January 2011, various interest rates(1)	21,878	26,014
Flinders Power Finance Pty, due September 2012, 6.14%-6.49%(1)	99,175	74,886
NRG Energy Center Minneapolis LLC, senior secured notes due 2013 and 2017, 7.12%-7.31%(1)	133,099	62,408
LSP Energy LLC (Batesville), due 2014 and 2025, 7.16%-8.16%(1)	314,300	321,875
PERC, due 2017 and 2018, 5.2%(1)	28,695	33,220
Saale Energie GmbH, Schkopau Capital lease, due 2021, various interest rates(1)	333,926	311,867
Audrain County, MO — Capital lease, due December 2023, 10%(1)	239,930	239,930
NRG South Central Generating LLC senior bonds, due various dates through September 15, 2024, various interest rates	750,750	763,500
NRG Northeast Generating LLC senior bonds, due various dates through December 15, 2024, various interest rates	556,500	610,000
NRG Peaker Finance Co. LLC	319,362	—
	8,385,867	7,492,790
Subtotal		
Less current maturities	7,193,237	210,885
	\$ 1,192,630	\$ 7,281,905
Total		

(1) NRG Energy has not reclassified the long term portions of these debt issuances to current as they are not currently callable within one year from the balance sheet date.

As of December 31, 2002, NRG Energy has failed to make scheduled payments on interest and/or principal on approximately \$4.0 billion of its recourse debt and is in default under the related debt instruments. These missed payments also have resulted in cross-defaults of numerous other non-recourse and limited recourse debt instruments of NRG Energy. In addition to the missed debt payments, a significant amount of NRG Energy's debt and other obligations contain terms, which require that they be supported with letters of credit or cash collateral following a ratings downgrade. As a result of the downgrades that NRG Energy has experienced in 2002, NRG Energy estimates that it is in default of its obligations to post collateral of approximately \$1.1 billion, principally to fund equity guarantees associated with its construction revolver

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

financing facility, to fund debt service reserves and other guarantees related to NRG Energy projects and to fund trading operations. In early November 2002, NRG Energy presented a restructuring plan to its creditors.

In mid-December 2002, the NRG Energy bank steering committee submitted a counter-proposal to the restructuring plan. In January 2003, a new restructuring proposal was presented to the creditors and negotiations are ongoing. On March 26, 2003, Xcel Energy announced that its board of directors had approved a tentative settlement agreement with holders of most of NRG Energy's long-term notes and the steering committee representing NRG Energy's bank lenders. The settlement is subject to certain conditions, including the approval of at least a majority in dollar amount of the NRG Energy bank lenders and long-term noteholders and definitive documentation. There can be no assurance that such approvals will be obtained. The terms of the settlement call for Xcel Energy to make payments to NRG Energy over the next 13 months totaling up to \$752 million for the benefit of NRG Energy's creditors in consideration for their waiver of an existing and potential claims against Xcel Energy. Under the settlement, Xcel Energy will make the following payments: (i) \$350 million at or shortly following the consummation of a restructuring of NRG Energy's debt. It is expected this payment would be made prior to year-end 2003; (ii) \$50 million on January 1, 2004. At Xcel Energy's option, it may fill this requirement with either cash or Xcel Energy common stock or any combination thereof; and (iii) \$352 million in April 2004.

Absent an agreement on a comprehensive restructuring plan, NRG Energy will remain in default under its debt and other obligations, because it does not have sufficient funds to meet such requirements and obligations. As a result, the lenders will be able, if they so choose, to seek to enforce their remedies at any time, which would likely lead to a bankruptcy filing by NRG Energy. There can be no assurance that NRG Energy's creditors ultimately will accept any consensual restructuring plan, or that, in the interim, NRG Energy's lenders and bondholders will continue to forbear from exercising any or all of the remedies available to them, including acceleration of NRG Energy's indebtedness, commencement of an involuntary proceeding in bankruptcy and, in the case of certain lenders, realization on the collateral for their indebtedness.

Pending the resolution of NRG Energy's credit contingencies, NRG Energy has classified as current liabilities those long-term debt obligations that lenders have the ability to accelerate within twelve months of the balance sheet date.

Short Term Debt

In March 2002, NRG Energy's \$500 million recourse revolving credit facility matured and was replaced with a \$1.0 billion 364-day revolving line of credit, which matured on March 7, 2003. The facility is unsecured and provides for borrowings of "Base Rate Loans" and "Eurocurrency Loans". The Base Rate Loans bear interest at the greater of the Administrative Agent's prime rate or the sum of the prevailing per annum rates for overnight funds plus 0.5% per annum, plus an additional margin which varies from 0.375% to 0.50% based upon NRG Energy's utilization of the facility and its then-current senior debt credit rating. The Eurocurrency loans bear interest at an adjusted rate based on LIBOR plus an adjustment percentage, which varies depending on NRG Energy's senior debt credit rating and the amount outstanding under the facility. The credit agreement for this facility was amended in April 2002 to revise the interest coverage ratio covenant. As amended, the covenant requires NRG Energy to maintain a minimum interest coverage ratio of 1.75 to 1, as determined at the end of each fiscal quarter. The facility contains additional covenants that, among other things, restrict the incurrence of liens and require NRG Energy to maintain a net worth of at least \$1.5 billion plus 25% of NRG Energy's consolidated net income from January 1, 2002 through the determination date. In addition, NRG Energy must maintain a debt to capitalization ratio of not more than 0.68 to 1.00 as defined in the credit agreement. The failure to comply with any of these covenants would be an Event of Default under the terms of the credit agreement. At December 31, 2002, NRG Energy had a \$1.0 billion outstanding balance under this credit facility. As of December 31, 2002, the weighted average interest rate of such outstanding advances was 5.14% per year. NRG Energy missed a \$7.6 million interest payment due on September 30, 2002, and as of that date, NRG Energy violated both the minimum net worth covenant and the minimum interest coverage ratio. NRG Energy also failed to make a fourth quarter interest payment of approximately

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$18.6 million due December 31, 2002. On February 27, 2003, ABN AMRO issued a notice on default on the corporate revolver financing facility, rendering the debt immediately due and payable. The recourse revolving credit facility matured on March 7, 2003 and the \$1 billion drawn remains outstanding. Accordingly, the facility is in default.

NRG Energy's \$125 million syndicated letter of credit facility contains terms, conditions and covenants that are substantially the same as those in NRG Energy's \$1.0 billion 364-day revolving line of credit. During the second quarter of 2002, the letter of credit facility agreement was amended to incorporate the same covenant revisions and other amendments that had previously been made to the terms and conditions of NRG Energy's \$1.0 billion revolving credit facility, including the addition of an interest coverage ratio covenant. As of December 31, 2002, NRG Energy violated both the minimum net worth covenant and the minimum interest coverage ratio. Accordingly, the facility is in default. NRG Energy had \$110 million and \$170 million in outstanding letters of credit as of December 31, 2002 and 2001, respectively.

As of December 31, 2001, NRG Energy, through its wholly owned subsidiary, NRG South Central Generating LLC, had outstanding approximately \$40 million under a project level, non-recourse revolving credit agreement which matured in March 2002. During the period ended December 31, 2001, the weighted average interest rate of such outstanding advances was 4.46%. NRG South Central extended this facility in March 2002, for an additional 3 months, on substantially similar terms. NRG South Central paid down the outstanding balance in June 2002. The weighted average interest rate for the three months ended June 30, 2002 was 3.1%. As of December 31, 2002, this facility no longer exists.

In January 2001, NRG Energy entered into a bridge credit agreement with a final maturity date of December 31, 2001. Approximately \$600 million was borrowed under this facility to partially finance NRG Energy's acquisition of the LS Power generation assets. In March 2001, the bridge credit facility was repaid with proceeds from NRG Energy's offering of common stock and equity units.

In June 2001, NRG Energy entered into a \$600 million term loan facility. The facility was unsecured and provided for borrowings of base rate loans and Eurocurrency loans. The facility terminated on June 21, 2002. As of December 31, 2001, the aggregate amount outstanding under this facility was \$600 million. During the period ended December 31, 2001 the weighted average interest rate of such outstanding advances was 3.94%. NRG Energy repaid this facility in March 2002, in connection with the closing of its new \$1.0 billion unsecured corporate-level revolving line of credit and the receipt of \$300 million of cash from Xcel Energy.

Long-term Debt and Capital Leases

Senior Securities

On March 13, 2001, NRG Energy completed the sale of 11.5 million equity units for an initial price of \$25 per unit. The 11.5 million equity units sold included 1.5 million units sold pursuant to the underwriters' over-allotment option. NRG Energy received gross proceeds from the issuance of \$287.5 million. Net proceeds from this issuance were \$278.4 million after deducting underwriting discounts, commissions and estimated offering expenses. Each equity unit initially consists of a corporate unit comprising a \$25 principal amount of NRG Energy's senior debentures and an obligation to acquire shares of NRG Energy common stock no later than May 18, 2004 at a price ranging from between \$27.00 and \$32.94. Approximately \$4.1 million of the gross proceeds have been recorded as additional paid in capital to reflect the value of the obligation to purchase NRG Energy's common stock. Interest payments will be payable on the debentures quarterly in arrears on each February 16, May 16, August 16 and November 16, commencing May 16, 2001. Interest will be payable initially at an annual rate of 6.50% of the principal amount of \$25 per debenture to, but excluding, February 17, 2004, or May 18, 2004. If the interest rate is not reset three business days prior to February 17, 2004 or three business days prior to May 18, 2004, the debentures will bear interest from February 17, 2004, or May 18, 2004, as applicable, at the reset rate to, but excluding, May 16, 2006. In

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

addition, original issued discount will accrue on the debentures. The net proceeds were used in part to reduce amounts outstanding under NRG Energy's \$600 million short-term bridge credit agreement, which was used to finance in part NRG Energy's acquisition of LS Power generation assets. As a result of the merger by Xcel Energy of NRG, holders of the NRZ equity units are no longer obligated to purchase shares of NRG common stock under the purchase contracts. Instead, holders of the equity units are now obligated to purchase a number of shares of Xcel Energy common stock upon settlement of the purchase contracts equal to the adjusted "settlement rate" or the adjusted "early settlement rate" as applicable. As a result of the short-form merger, the adjusted settlement rate is 0.4630 and the adjusted early settlement rate is 0.3795, subject to the terms and conditions of the purchase contracts set forth in a purchase contract agreement. On October 29, 2002, NRG Energy announced it would not make the November 16, 2002 quarterly interest payment on the 6.50% senior unsecured debentures due in 2006, which trade with the associated purchase contracts as NRG corporate units (NRZ). The 30-day grace period to make payment ended December 16, 2002, and NRG Energy did not make payment to the NRZ holders and, as a result, this issue is in default. In addition, NRG Energy did not make the February 17, 2003 quarterly interest payment. In the event of an NRG Energy bankruptcy, the obligation to purchase shares of Xcel Energy stock terminates.

In April 2001, NRG Energy issued \$690 million of senior notes in two tranches. The first tranche of \$350 million matures in April 2011 and bears an interest rate of 7.75%. The second tranche of \$340 million matures in April 2031 and bears an interest rate of 8.625%. Interest on the notes is due semi-annually each April and October. The net proceeds of the issuance were used for repayment of short-term indebtedness incurred to fund acquisitions, for investments, general corporate purposes and to provide capital for future planned acquisitions.

In June 2001, NRG filed a shelf registration with the SEC to sell up to \$2 billion in debt securities, common and preferred stock, warrants and other securities. Approximately \$1.5 billion remains outstanding under this shelf registration filing as of December 31, 2002.

In July 2001, NRG Energy completed the sale of \$500 million of unsecured senior notes under this shelf registration. The senior notes were issued in two tranches, the first tranche of \$340 million of 6.75% Senior Notes is due July 2006 and the second tranche of \$160 million of 8.625% Senior Notes is due April 2031. Interest payments are due semi-annually on January 15 and July 15 until maturity for the Senior Notes due 2006 and April 1 and October 1 until maturity for the Senior Notes due 2031. NRG received net proceeds from the sale of both series of notes of approximately \$505.2 million, including interest on the senior notes due 2031, accrued from April 5, 2001. The net proceeds were used to repay all amounts outstanding under NRG's revolving credit agreement and for investments and other general corporate purposes and to provide capital for planned acquisitions. On October 1, 2002, NRG Energy failed to make a \$13.6 million interest payment on the \$350 million 7.75% senior unsecured notes due 2011, a \$11.5 million interest payment due on the \$340 million of 6.75% senior unsecured notes due 2006, and a \$21.6 million payment on the combined \$500 million of 8.625% senior unsecured notes due 2031. The 30-day grace period to make payment related to these issues has passed and NRG Energy did not make the required payments. NRG Energy is in default on these notes.

In March 2000, an NRG Energy sponsored non-consolidated pass through trust issued \$250 million of 8.70% certificates due March 15, 2005. Each certificate represents a fractional undivided beneficial interest in the assets of the trust. Interest is payable on the certificates semi-annually on March 15 and September 15 of each year through 2005. The sole assets of the trust consist of £160 million (approximately \$250 million on the date of issuance) principal amount 7.97% Reset Senior Notes due March 15, 2020 issued by NRG Energy. The Reset Senior Notes were used principally to finance NRG Energy's acquisition of the Killingholme facility. Interest is payable semi-annually on the Reset Senior Notes on March 15 and September 15 through March 15, 2005, and then at intervals and interest rates established in a remarketing process. If the Reset Senior Notes are not remarketed on March 15, 2005, they must be mandatorily redeemed by NRG Energy on

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such date. On September 16, 2002, NRG Pass-through Trust I failed to make a \$10.9 million interest payment due on the \$250 million bonds, as a consequence of NRG Energy failing to pay interest due on £160 million of 7.97% debt. The 30-day grace period to make payment related to this issue has passed and NRG Energy did not make the required payments, NRG Energy is in default on these bonds.

The NRG Energy senior notes are unsecured and are used to support equity requirements for projects acquired and in development. Interest is paid semi-annually.

The NRG Energy \$125 million, \$250 million, \$300 million, \$350 million, and \$240 million senior notes are unsecured and are used to support equity requirements for projects acquired and in development. The interest is paid semi-annually and mature in February 2006, June 2007, June 2009, September 2010, and November 2013, respectively. On September 16, 2002, NRG Energy failed to make a \$14.4 million interest payment due on \$350 million of 8.25% senior unsecured notes due in 2010. On November 1, 2002, NRG Energy failed to make a \$9.6 million interest payment due on \$240 million of 8.0% senior unsecured notes due in 2013. On December 31, 2002, NRG Energy failed to make an \$11.3 million interest payment due on \$300 million of 7.5% senior unsecured notes due in 2009. On December 15, 2002, NRG Energy failed to make a \$9.4 million interest payment due on \$250 million of 7.5% senior unsecured notes due in 2007. On February 1, 2003, NRG Energy failed to make a \$4.8 million interest payment due on the \$125 million of 7.625% senior unsecured notes due 2006. The 30-day grace period to make payment related to these issues has passed and NRG Energy did not make the required payments, and NRG Energy is in default on these notes.

The \$240 million NRG Energy Senior notes due November 1, 2013 are ROARS. November 1, 2003 is the first remarketing date for these notes. Interest is payable semi-annually on May 1, and November 1, of each year through 2003, and then at intervals and interest rates as discussed in the indenture. On the remarketing date, the notes must either be mandatorily tendered to and purchased by Credit Suisse Financial Products or mandatorily redeemed by NRG Energy at prices discussed in the indenture. The notes are unsecured debt that rank senior to all of NRG Energy's existing and future subordinated indebtedness. On October 16, 2002 NRG Energy entered into a Termination Agreement with the agent CSFB that, terminated the Remarketing Agreement. A termination payment of \$31.4 million due on October 17, 2002 has not been paid.

Project financings

In May 2001, NRG Energy's wholly-owned subsidiary, NRG Finance Company I LLC, entered into a \$2 billion revolving credit facility. The facility was established to finance the acquisition, development and construction of power generating plants located in the United States and to finance the acquisition of turbines for such facilities. The facility provides for borrowings of base rate loans and Eurocurrency loans and is secured by mortgages and security agreements in respect of the assets of the projects financed under the facility, pledges of the equity interests in the subsidiaries or affiliates of the borrower that own such projects, and by guaranties from each such subsidiary or affiliate. Provided that certain conditions are met that assure the lenders that sufficient security remains for the remaining outstanding loans, the borrower may repay loans relating to one project and have the liens relating to that project released. Loans that have been repaid may be re-borrowed, as permitted by the terms of the facility. The facility terminates on May 8, 2006. The facility is non-recourse to NRG Energy other than its obligation to contribute equity at certain times in respect of projects and turbines financed under the facility. NRG Energy estimates the obligation to contribute equity to be approximately \$819 million as of December 31, 2002. As of December 31, 2002 and 2001, the aggregate amount outstanding under this facility was \$1.08 billion and \$697.5 million, respectively. During the period ended December 31, 2002 and 2001, the weighted average interest rate of such outstanding advances was 4.92% and 4.83%, respectively. At December 31, 2002, interest and fees due in September 2002 were not paid

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and NRG Energy has suspended required equity contributions to the projects. Supporting construction and other contracts associated with NRG Energy's Pike and Nelson projects were violated by NRG Energy, in September and October 2002, respectively. NRG Energy is in default of this agreement and on November 6, 2002, lenders to NRG Energy accelerated the approximately \$1.08 billion of debt under the construction revolver facility, rendering the debt immediately due and payable.

As part of NRG Energy's acquisition of the LS Power assets in January 2001, NRG Energy, through its wholly owned subsidiary, LSP Kendall Energy LLC, acquired a \$554.2 million credit facility. The facility is non-recourse to NRG Energy and consists of a construction and term loan, working capital and letter of credit facilities. As of December 31, 2002 and 2001, there were borrowings totaling approximately \$495.8 million and \$499.5 million, respectively, outstanding under the facility at a weighted average annual interest rate of 3.19% and 5.12%, respectively. In May 2002, LSP-Kendall Energy, LLC received a notice of default from Societe General, the administrative agent under LSP-Kendall's Credit and Reimbursement Agreement dated November 12, 1999. The notice asserted that an event of default had occurred under the Credit and Reimbursement Agreement as a result of liens filed against the Kendall project by various subcontractors. In consideration of the borrower's implementation of a plan to remove the liens, and NRG Energy's indemnification pursuant to an Indemnity Agreement dated June 28, 2002, of the lenders to the Kendall project from any claims or damages relating to these liens or any dispute or action involving the projects EPC contractor, the administrative agent, with the consent of the required lenders under the Credit and Reimbursement Agreement, withdrew the notice of default and conditionally waived any default or event of default described therein. Discussions with the administrative agent regarding the liens continue. On January 10, 2003, NRG Energy received a notice of default from LSP Kendall's lenders indicating that certain events of default have taken place and that by issuing this notice of default the lenders have preserved all of their rights and remedies under the Credit Agreement and other Credit Documents. NRG Energy is negotiating a waiver to this default notice with the creditors to LSP Kendall.

Upon the acquisition of the LS Power assets, a subsidiary of NRG Energy assumed approximately \$326 million of bonds outstanding originally issued to finance the construction of the Batesville generation plant. In May 1999, LSP Energy Limited Partnership (Partnership) and LSP Batesville Funding Corporation (Funding) issued two series of Senior Secured Bonds (Bonds) in the following total principle amounts: \$150 million 7.16% Series A Senior Secured Bonds due 2014 and \$176 million 8.160% Series B Senior Secured Bonds due 2025. Interest is payable semiannually on each January 15 and July 15. In March 2000, a registration statement was filed by Partnership and Funding and became effective. The registration statement was filed to allow the exchange of the Bonds for two series of debt securities (Exchange Bonds), which are in all material respects substantially identical to the Bonds. The Exchange Bonds are secured by substantially all of the personal property and contract rights of the Partnership and Funding. The Exchange Bonds are redeemable, at the option of Partnership and Funding, at any time in whole or from time to time in part, on not less than 30 nor more than 60 days prior notice to the holders of that series of Exchange Bonds, on any date prior to their maturity at a redemption price equal to 100% of the outstanding principal amount of the Exchange Bonds being redeemed and a make whole premium. In no event will the redemption price ever be less than 100% of the principal amount of the Exchange Bonds being redeemed plus accrued and unpaid interest thereon. Principal payments are payable on each January 15 and July 15 beginning July 15, 2001.

In March 2001, NRG Energy increased its ownership interest in Penobscot Energy Recovery Company (PERC), which resulted in the consolidation of its equity investment in PERC. As a result, the assets and liabilities of PERC became part of the assets and liabilities of NRG Energy. Upon completion of the transaction, NRG Energy recorded approximately \$37.9 million of outstanding Finance Authority of Maine (FAME) Electric Rate Stabilization Revenue Refunding Bonds Series 1998 (FAME bonds) which were issued on PERC's behalf by FAME in June 1998. The face amount of the bonds that were initially issued was approximately \$44.9 million and was used to repay the Floating Rate Demand Resource Revenue Bonds issued by the Town of Orrington, Maine on behalf of PERC. The FAME bonds are fixed rate bonds with

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yields ranging from 3.75% to 5.2%. The weighted average yield on the FAME bonds is approximately 5.1%. The FAME bonds are subject to mandatory redemption in annual installments of varying amounts through July 1, 2018. Beginning July 1, 2008 the FAME bonds are subject to redemption at the option of PERC at a redemption price equal to 102% through June 30, 2009, 101% for the period July 1, 2009 to June 30, 2010 and 100% thereafter, of the principal amount outstanding, plus accrued interest. The loan agreement with FAME contains certain restrictive covenants relating to the FAME bonds, which restrict PERC's ability to incur additional indebtedness, and restricts the ability of the general partners to sell, assign or transfer their general partner interests. The bonds are collateralized by liens on substantially all of PERC's assets. As of December 31, 2002, there remains \$28.7 million of bonds outstanding.

On June 22, 2001, NRG MidAtlantic Generating LLC (MidAtlantic), a wholly owned subsidiary of NRG Energy, borrowed approximately \$420.9 million under a five year term loan agreement (Agreement) to finance, in part, the acquisition of certain generating facilities from Conectiv. The Agreement terminates in November 2005 and provides for a total credit facility of \$580 million. Interest is payable quarterly. The debt is guaranteed by MidAtlantic and its wholly owned subsidiaries. The Agreement provides for a variable interest rate at either the higher of the Prime rate or the Federal Funds rate plus 0.50%, or the London Interbank Offered Rate (LIBOR) of interest. During the period ended December 31, 2002 and 2001, the weighted average interest rate for amounts outstanding under the Agreement was 3.30% and 4.56%, respectively. MidAtlantic is obligated to pay a commitment fee of 0.375% of the unused portion of the credit facility. The Agreement requires MidAtlantic to comply with certain covenants concerning limitations on additional borrowings, sales of assets, capital expenditures, and payment of dividends or other distributions to shareholders.

In June 2001, NRG Energy through its wholly owned subsidiaries, Brazos Valley Energy LP and Brazos Valley Technology LP, entered into a \$180 million non-recourse construction credit facility to fund the construction of the 600 MW Brazos Valley gas-fired combined cycle merchant generation facility located in Fort Bend County, Texas. On October 8, 2002, bank lenders and the project company executed amendments to the loan documents that provided for additional advances to fund certain construction costs. As of December 31, 2002, there existed an outstanding balance of \$194.4 million under this credit agreement. The weighted average interest rate as of December 31, 2002 and 2001 was 4.41% and 4.61%, respectively. Interest is payable quarterly. On January 31, 2003, NRG Energy consented to the foreclosure of its Brazos Valley project by its lenders. As consequence of foreclosure, NRG Energy no longer has any interest in the Brazos Valley project, however, NRG Energy may be obligated to infuse additional amounts of capital to fund a debt service reserve account that had never been funded and may be obligated to make an equity infusion to satisfy a contingent equity agreement.

In connection with NRG Energy's acquisition of the COBEE facilities, NRG Energy recorded on its balance sheet approximately \$56.3 million of non-recourse long-term debt that is due in 18 semi-annual installments of varying amounts beginning January 31, 1999 and ending July 31, 2007. The loan agreement provides an A Loan of up to \$30 million and a B Loan of up to \$45 million. Interest is payable semi-annual in arrears at a rate equal to 6-month LIBOR plus a margin of 4.5% on the A Loan and 6-month LIBOR plus a margin of 4.0% on the B Loan. The A Loan and the B Loan are collateralized by a mortgage on substantially all of COBEE's assets.

In August 2001, NRG Energy entered into a 364-day term loan of up to \$296 million. The credit facility was structured as a senior unsecured loan and was partially non-recourse to NRG Energy. The proceeds were used to finance the McClain generating facility acquisition. In November 2001, the credit facility was repaid from the proceeds of a \$181.0 million term loan and \$8.0 million working capital facility entered into by NRG McClain LLC, with Westdeutsche Landesbank Girozentrale, New York branch, as agent (non-recourse to NRG Energy). The final maturity date of the facility is November 30, 2006. As of December 31, 2002 and 2001, the aggregate amount outstanding under this facility was \$157.3 million and \$159.9 million, respectively.

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During the period ended December 31, 2002 and 2001, the weighted average interest rate of such outstanding borrowings was 4.57% and 5.07%, respectively. On September 17, 2002, NRG McClain LLC received notice from the agent bank that the project loan was in default as a result of the downgrade of NRG Energy and of defaults on material obligations under the Energy Management Services Agreement.

In connection with NRG Energy's acquisition of the Audrain facilities, NRG Energy has recognized a capital lease on its balance sheet within long-term debt in the amount of \$239.9 million, as of December 31, 2002 and 2001. The capital lease obligation is recorded at the net present value of the minimum lease obligation payable. The lease terminates in May 2023. During the term of the lease only interest payments are due, no principal is due until the end of the lease. In addition, NRG Energy has recorded in notes receivable, an amount of approximately \$239.9 million, which represents its investment in the bonds that the county of Audrain issued to finance the project. During December 2002, NRG Energy received a notice of a waiver of a \$24.0 million interest payment due on the capital lease obligation.

In connection with NRG Energy's purchase of PowerGen's interest in Saale Energie GmbH, NRG Energy has recognized a non-recourse capital lease on its balance sheet within long-term debt in the amount of \$333.9 million and \$311.9 million, as of December 31, 2002 and 2001, respectively. The capital lease obligation is recorded at the net present value of the minimum lease obligation payable over the lease's remaining period of 20 years. In addition, a direct financing lease was recorded in notes receivable in the amount of approximately \$366.4 million and \$318.9 million, as of December 31, 2002 and 2001, respectively.

In July 2002, NRG Energy Center Minneapolis LLC (ECM), an indirect wholly owned subsidiary of NRG Energy, entered into an agreement allowing it to issue senior secured promissory notes in the aggregate principal amount of up to \$150 million. In July 2002, under this agreement, ECM issued \$75 million of bonds in a private placement. Two series of notes were issued in July 2002, the \$55 million Series A-Notes dated July 3, 2002, which matures on August 1, 2017 and bears an interest rate of 7.25% per annum and the \$20 million Series B-Notes dated July 3, 2002, which matures on August 1, 2017 and bears an interest rate of 7.12% per annum. NRG Thermal LLC, a wholly owned subsidiary of NRG Energy, which owns 100% of ECM, pledged its interests in all of its district heating and cooling investments throughout the United States as collateral. NRG Thermal and ECM are required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of assets, and affiliate transactions. NRG Thermal and ECM were in compliance with these covenants at December 31, 2002.

On October 30, 2002 NRG Energy failed to make \$3.1 million in payments under certain Non-Operating Interest Acquisition agreements. As a result, NEO Corporation, a direct wholly-owned subsidiary of NRG Energy and NEO Landfill Gas, Inc., an indirect wholly-owned subsidiary of NRG Energy, failed to make approximately \$1.4 million in payments under the Amended and Restated Construction, Acquisition and Term Loan Agreement, dated July 6, 1998. Also, the subsidiaries of NEO Corporation and NEO Landfill Gas, Inc. failed to make approximately \$2 million in payments pursuant to various Site Development Operations and Coordination Agreements. NRG Energy received an extension until November 19, 2002 with respect to NEO Landfill Gas, Inc. to make payments under such agreements and such payments were made during the extension period.- The payments relating to NEO Corporation were not made and the loan was due and payable on December 20, 2002. A letter of credit was drawn to pay the NEO Corporation loan in full on December 23, 2002. As of December 31, 2002, NEO Landfill Gas, Inc. was in default under the Amended and Restated Construction, Acquisition and Term Loan Agreement dated July 6, 1998 due to the failure to meet the insurance requirements under the loan document. On January 30, 2003 NRG Energy, Inc. failed to make \$2.7 million in payments under certain Non-Operating Interest Acquisition agreements. As a result, NEO Landfill Gas, Inc. failed to make its payment due on January 30, 2003 under the Amended and Restated Construction Acquisition and Term Loan Agreement dated July 6, 1998 and the subsidiaries of NEO Landfill Gas failed to make their payments pursuant to various Site Development and Operations Coordination Agreements.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Camas Power Boiler LP notes are secured principally by its long-term assets. In accordance with the terms of the note agreements, Camas Power Boiler LP is required to maintain compliance with certain financial covenants primarily related to incurring debt, disposing of assets, and affiliate transactions. Camas Power Boiler was in compliance with these covenants at December 31, 2002.

On February 22, 2000, NRG Northeast Generating LLC (NRG Northeast), an indirect, wholly-owned subsidiary of NRG Energy, issued \$750 million of project level senior secured bonds, to refinance short-term project borrowings and for certain other purposes. The bond offering included three tranches: \$320 million with an interest rate of 8.065% due in 2004, \$130 million with an interest rate of 8.842% due in 2015 and \$300 million with an interest rate of 9.292% due in 2024. Interest and principal payments are due semi-annually. The bonds are jointly and severally guaranteed by each of NRG Northeast's subsidiaries. The bonds are secured by a security interest in NRG Northeast's membership or other ownership interests in the guarantors and its rights under all inter-company notes between NRG Northeast and the guarantors. In December 2000, NRG Northeast exchanged all of its outstanding bonds for bonds registered under the Securities Act of 1933. As of December 31, 2002 and 2001, there remains \$556.5 million and \$610 million of outstanding bonds, respectively. On December 15, 2002, NRG Northeast failed to make \$24.7 million interest and \$53.5 million principal payments. NRG Northeast Generating had a 15-day grace period to make payment. On December 27, 2002, NRG Northeast made the \$24.7 million interest payment due on the NRG Northeast bonds, but failed to make the \$53.5 million principal payment. As a result, the payment default associated with its failure to make principal payments when they come due is currently in effect. NRG Northeast also failed to make a debt service reserve account cash deposit within 30 days of NRG Energy's credit rating downgrade in July 2002. In addition, NRG Northeast is also in default of its debt covenants because of the lapse of the 60 day grace period regarding the necessary dismissal of an involuntary bankruptcy proceeding.

In March 2000, NRG South Central Generating LLC (NRG South Central), an indirect wholly owned subsidiary of NRG Energy, issued \$800 million of senior secured bonds in a two-part offering, to finance its acquisition of the Cajun generating facilities. The first tranche was for \$500 million with a coupon of 8.962% and a maturity of 2016. The second tranche was for \$300 million with a coupon of 9.479% and a maturity of 2024. Interest and principal payments are due semi-annually. The bonds are secured by a security interest in NRG Central U.S. LLC's and South Central Generating Holding LLC's membership interests in NRG South Central and NRG South Central's membership interests in Louisiana Generating and all of the assets related to the Cajun facilities including its rights under a guarantor loan agreement and all inter-company notes between it and Louisiana Generating, and a revenue account and a debt service reserve account. In January 2001, NRG South Central exchanged all of its outstanding bonds for bonds registered under the Securities Act of 1933. As of December 31, 2002 and 2001, there remains \$750.8 million and \$763.5 million of outstanding bonds, respectively. On September 15, 2002, NRG South Central missed a \$47 million principal and interest payment. The 15-day grace period to make payment related to this issue passed and NRG South Central did not make the required payments. In January 2003, the South Central Generating bondholders unilaterally withdrew \$35.6 million from the restricted revenue account, relating to the September 15, 2002, interest payment and fees. On March 17th, 2003 South Central bondholders were paid \$34.4 million due in relation to the semi-annual interest payment and the \$12.8 million principal payment was deferred. NRG South Central remains in default on these notes.

In September 2000, Flinders Power Finance Pty (Flinders Power), an Australian wholly owned subsidiary, entered into a twelve year AUD \$150 million promissory note (US \$81.4 million at September 2000). As of December 31, 2002 and 2001, there remains \$80.5 million and \$74.9 million outstanding under this facility, respectively. The interest has fixed and variable components. At December 31, 2002 and 2001, the effective interest rate was 6.49% and 5.89%, respectively and is paid semi-annually. Principal payments commence in 2006 and the facility will be fully paid in 2012. In March 2002, Flinders Power entered into a 10 year AUD \$165 million (US\$85.4 million at March 2002) floating rate promissory note for the purpose of

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

refurbishing the Flinders Playford generating station. As of December 31, 2002, the Company had drawn \$18.7 million (AUD \$33 million) of this facility. The interest rate has fixed and variable components. The effective interest rate at December 31, 2002 was 6.14%, and is paid semi annually. Upon NRG Energy's credit rating downgrade in 2002, there existed a potential default under these agreements related to the funding of reserve funds. Flinders has worked with the Flinders Banks since the downgrade and has signed a series of consecutive standstill agreements, the last standstill agreement expires in March 2003 unless otherwise agreed or extended.

In June 2002, NRG Peaker Finance Company LLC (NRG Peaker), an indirect wholly owned subsidiary of NRG Energy, completed the issuance of \$325 million of Series A Floating Rate Senior Secured Bonds due 2019. The bonds bear interest at a floating rate equal to three-months USD-LIBOR — BBA plus 1.07%. Interest on the bonds is payable on March 10, June 10, September 10 and December 10 of each year, commencing on September 10, 2002. Scheduled principal payments of \$8.0 million, \$10.5 million, \$4.3 million, \$6.8 million, \$11.2 million and \$278.6 million are due on December 10 of 2003, 2004, 2005, 2006, 2007 and thereafter through June 2019, respectively. The final scheduled repayment of principal is due on June 10, 2019. The bonds may be redeemed at any time prior to maturity at a price that, in certain circumstances, will include a redemption premium. The initial bond proceeds of \$250 million were used to make loans to affiliates which own natural-gas fired "peaker" electric generating projects located in either Louisiana or Illinois. The project owners used the proceeds of the loans to (1) reimburse NRG Energy for construction and/or acquisition costs for the peaker projects previously paid by NRG Energy, (2) pay to XL Capital Assurance (XLCA) the premium for the Bond Policy, (3) provide funds to NRG Peaker to collateralize a portion of NRG Energy's contingent guaranty obligations and (4) pay transaction costs incurred in connection with the offering of the bonds (including reimbursement of NRG Energy for the portion of such costs previously paid by NRG Energy). The Bond Policy is a financial guaranty insurance policy that unconditionally and irrevocably guaranties payment of scheduled principal and interest payments on the Bonds. The Bond Policy does not, however, guaranty the payment of principal or interest on the bonds prior to the applicable scheduled payment dates, unless XLCA elects to make such payments. The bonds are secured by a pledge of membership interests in NRG Peaker and a security interest in all of its assets, which initially consist of notes evidencing loans to the affiliate project owners. The project owners' jointly and severally guaranty the entire principal amount of the bonds and interest on such principal amount. The project owner guaranties are secured by a pledge of the membership interest in three of five project owners and a security interest in substantially all of the project owners' assets related to the peaker projects, including equipment, real property rights, contracts and permits. NRG Energy has entered into a contingent guaranty agreement in favor of the collateral agent for the benefit of the secured parties, under which it agreed to make payments to cover scheduled principal and interest payments on the bonds and regularly scheduled payments under the interest rate swap agreement, to the extent that the net revenues from the peaker projects are insufficient to make such payments, in specified circumstances. This financing contains a cross-default provision related to the failure by NRG Energy to make payment of principal, interest or other amounts due on debt for borrowed money in excess of \$50 million, a covenant that was violated in October 2002. In addition, in 2002 mechanics liens were placed against the Bayou Cove facility resulting in an additional default. On October 22, 2002, XL Capital issued a notice of default on the Peaker financing facility. On December 10, 2002, \$16.0 million in interest, principal, and swap payments were made from restricted cash accounts. As a result, \$319.4 million in principal remains outstanding as of December 31, 2002.

NRG Peaker has also entered into an interest rate swap agreement pursuant to which it agreed to make fixed rate interest payments and receive floating rate interest payments. The interest rate swap counter-party will have a security interest in the collateral for the bonds and the collateral for the project owner guaranties. Net payments to be made by NRG Peaker under the interest rate swap agreement will be guaranteed pursuant to a separate financial guaranty insurance policy, the issuer of which will have a security interest in the

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

collateral for the bonds and the collateral for the project owner guaranties. NRG Peaker was in compliance with this agreement at December 31, 2002.

LSP-Pike Energy LLC received a loan to construct its power generation facility in Pike County, Mississippi, from Mississippi Business Finance Corporation that was financed by the issuance of Industrial Revenue Bonds (Series 2002). NRG Finance Company LLC, an affiliate of LSP-Pike Energy LLC, purchased the Series 2002 bonds. These bonds have been classified as debt on the financial statements. The principal and the interest on these bonds is due and payable as of January 1, 2010 and bears a variable interest rate equivalent to the interest rate payable on the loan funds used to finance the bond purchase by NRG Finance Company I LLC. These bonds are subject to a subordination agreement between NRG Finance Company I LLC, as purchaser, LSP-Pike Energy LLC, and Credit Suisse First Boston, as administrative agent to a senior claim, so that in the case of insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings, and even in the event of any proceedings for voluntary liquidation, dissolutions, or other winding up of the company, then the holders of the senior claims shall be entitled to receive payment in full or cash equivalents of all principal, interest, charges and fees on all senior claims before the purchaser is entitled to receive any payment on account of the principal or interest on these bonds. As of October 17, 2002, the United States Bankruptcy Court for the Southern District of Mississippi granted an order of relief to the debtor under the US bankruptcy laws, thus, forcing LSP-Pike Energy LLC into default and cessation of all benefits granted under the terms of the loan agreement and issuance of the bonds.

Annual maturities of long-term debt and capital leases for the years ending after December 31, 2002 are as follows:

	<u>Total</u>
	(Thousands of dollars)
2003 (Due or callable)	\$7,193,237
2004	68,125
2005	79,037
2006	75,430
2007	70,331
Thereafter	899,707
Total	<u>\$8,385,867</u>

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Future minimum lease payments for capital leases included above at December 31, 2002 are as follows:

	(Thousands of dollars)
2003	\$ 75,305
2004	73,147
2005	70,698
2006	68,593
2007	66,489
Thereafter	951,133
	<hr/>
Total minimum obligations	1,305,365
	<hr/>
Interest	(730,833)
	<hr/>
Present value of minimum obligations	574,532
Current Portion	(26,855)
	<hr/>
Long-term obligations	\$ 547,677
	<hr/> <hr/>

Total net book value related to the assets recorded with respect to NRG Energy's capital leases at December 31, 2002 and 2001 was \$258.2 million and \$334.6 million, net of \$2.3 million and \$0 of accumulated amortization, respectively.

Note 14 — Guarantees

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for the obligations the guarantor has undertaken in issuing the guarantee.

NRG Energy is directly liable for the obligations of certain of its project affiliates and other subsidiaries pursuant to guarantees relating to certain of their indebtedness, equity and operating obligations. In addition, in connection with the purchase and sale of fuel, emission credits and power generation products to and from third parties with respect to the operation of some of NRG Energy's generation facilities in the United States, NRG Energy may be required to guarantee a portion of the obligations of certain of its subsidiaries. Additionally, as a result of the downgrades of NRG Energy's unsecured debt ratings, the Company is required to post cash collateral in the amount of \$1.1 billion, however, NRG Energy has been unable to do so.

As of December 31, 2002 and 2001, NRG Energy's obligations pursuant to its guarantees of the performance, equity and indebtedness obligations of its subsidiaries were as follows:

Description	2002	2001
	(In thousands)	
Guarantees of subsidiaries (including cash collateral calls)	\$ 1,587,022	\$721,730
Standby letters of credit	110,676	170,287
	<hr/>	<hr/>
Total guarantees	\$1,697,698	\$892,017
	<hr/> <hr/>	<hr/> <hr/>

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2002, the nature and details of NRG's guarantees were as follows:

Project/ Subsidiary	Guarantee/ Maximum Exposure (in thousands)	Nature of Guarantee	Expiration Date	Triggering Event
Astoria/ Arthur Kill	Indeterminate	Performance	None stated	Nonperformance
Bourbonnais	\$ 15,000	Purchase of turbines	None stated	Nonperformance
Brazos Valley	\$ 72,600	Equity Infusion	December 1, 2006	Equity not injected
Brazos Valley		Payment obligations under Interconnection Agreement	None stated	Nonpayment
Brazos Valley	\$ 7,300	Payment obligations under Interconnection Agreement	None stated	Nonpayment
Brazos Valley	\$ 300	Payment obligations under Interconnection Agreement	None stated	Nonpayment
Cahua S.A. and Energia Pacasmayo S.R.L.	\$ 4,398	Obligations under credit agreement	None stated	Credit Agreement default
Commonwealth Atlantic Limited Partnership	\$ 2,000	Invoice payment	April 1, 2003	Nonpayment
Conectiv	\$ 2,400	Closure and post-closure care of landfill	None stated	Subsidiary failure to maintain landfill
Elk River Resource Recovery	\$ 17,000	Defaults on bond payments	January 1, 2006	NSP default on bond payments
Enfield	\$ 3,555	Obligations under credit agreement	None stated	Credit Agreement default
Flinders		Employee separation packages, superannuation and retention payments	None stated	Nonpayment
Flinders	\$ 24,000	Employee separation packages, superannuation and retention payments	None stated	Nonpayment
Flinders	Indeterminate	Goods & Services Tax liability	None stated	Nonpayment
Flinders	\$ 45,000	Post lease obligations	None stated	Failure to meet obligations
Flinders	\$ 4,800	Purchase of gas	December 31, 2010	Failure to purchase gas
Flinders	Indeterminate	Performance	December 31, 2018	Nonperformance
Flinders	\$ 10,275	Superannuation reserve	September 7, 2005	Credit Agreement default
Flinders	\$ 11,322	Debt service reserve guarantee	None stated	Credit Agreement default
Gladstone	\$ 18,445	Extraordinary operational breach	None stated	Nonperformance
Ilion	\$ 11,478	Payment under lease agreement	March 25, 2004	Nonpayment
Killingholme	\$ 21,300	Debt service reserve guarantee	None stated	Credit Agreement default
McClain LLC	\$ 4,744	Debt service reserve guarantee	November 1, 2006	Credit Agreement default
Mid-Atlantic (Conectiv)	\$ 23,389	Debt service reserve guarantee	November 13, 2005	Credit Agreement default
NEGEN LLC	\$ 37,000	Performance	December 31, 2003	Nonperformance
NEGEN LLC	\$ 40,129	Debt service reserve guarantee	December 15, 2024	Credit Agreement default
NEO California Power LLC	\$ 5,832	Reliability agreement	Not stated.	Nonperformance

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Project/ Subsidiary	Guarantee/ Maximum Exposure (in thousands)	Nature of Guarantee	Expiration Date	Triggering Event
NRG Finance Company I LLC	\$ 819,000	Equity Infusion	None stated	Equity not injected
Power Marketing, Inc.	\$ 133,925	Performance	None stated	Nonperformance
South Central Generating LLC	\$ 46,595	Debt service reserve guarantee	September 15, 2024	Credit Agreement default
West Coast LLC	\$ 5,000	Invoice payment	None stated	Nonpayment
West Coast LLC	\$ 40,000	Equity infusion	None stated	Equity not injected
West Coast LLC	Indeterminate	Asset Sales Agreement	None stated	Nonperformance
Peaker Finance Co	\$ 34,500	Guarantee for early termination	June 18, 2019	Nonperformance
Peaker Finance Co	\$ 30,380	Experience account shortfall	June 18, 2019	Nonperformance
Peaker Finance Co	\$ 7,500	Project Completion	December 31, 2003	Nonperformance
ECKG	\$ 17,355	Obligations under purchase agreement	2003	Nonperformance of subsidiary obligation
ECKG	\$ 4,500	Operations & Maintenance Agreement	2010	Nonperformance of subsidiary obligation
Entrade	\$ 8,000	Obligations under the SPA	December 13, 2007	Nonperformance of subsidiary obligation
Csepel	\$ 50,000	Obligations under the SPA	December 13, 2007	Nonperformance of subsidiary obligation
Bulo Bulo	\$ 8,000	Obligations under the SPA	December 13, 2007	Nonperformance of subsidiary obligation

Recourse provisions for each of the guarantees above are to the extent of their respective liability. Additionally, no assets are held as collateral for any of the above guarantees.

Note 15 — Income Taxes

NRG Energy and its subsidiaries will file a consolidated federal income tax return through June 3, 2002, when Xcel Energy completed its exchange offer for the 26% of NRG Energy's shares that had been previously publicly held. Starting June 4, 2002, NRG Energy and subsidiaries can rejoin Xcel Energy's consolidated group for federal income tax purposes provided the Internal Revenue Service (IRS) consents to such rejoining. Without such consent, separate income tax returns will be required for each NRG Energy entity that is treated as a corporation for income tax purposes.

To date, no request has been made to the IRS for consent to permit Xcel Energy to reconsolidate NRG Energy for federal income tax purposes. Because it is likely that Xcel Energy will not request such a consent, the income tax provision for NRG Energy is based on a consolidated NRG Energy group through June 3, 2002, and separate corporate tax returns starting June 4, 2002.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The provision (benefit) for income taxes for the years ended December 31, consists of the following:

	2002	2001	2000
	(Thousands of dollars)		
Current			
U.S.	\$ 10,394	\$ 29,120	\$ 88,774
Foreign	18,973	11,627	1,704
	<u>29,367</u>	<u>40,747</u>	<u>90,478</u>
Deferred			
U.S.	(192,501)	31,564	31,086
Foreign	(2,248)	4,529	(578)
	<u>(194,749)</u>	<u>36,093</u>	<u>30,508</u>
Tax credits recognized	—	(48,788)	(34,083)
	<u>\$ (165,382)</u>	<u>\$ 28,052</u>	<u>\$ 86,903</u>
Effective tax rate	5.4%	11.4%	36.5%

The pre-tax (loss) income from U.S. and foreign consolidated entities was as follows:

	2002	2001	2000
	(Thousands of dollars)		
U.S.	\$ (2,952,500)	\$ 168,804	\$ 216,149
Foreign	(169,840)	18,659	3,425
	<u>\$ (3,122,340)</u>	<u>\$ 187,463</u>	<u>\$ 219,574</u>

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

	2002	2001
	(Thousands of dollars)	
Deferred tax liabilities:		
Differences between book and tax basis of property, other than impairments	\$ 263,391	\$ 380,275
Investments in projects	854	30,036
Goodwill	1,809	2,116
Net unrealized gains on mark to market transactions	37,800	17,591
Other	8,809	1,946
	<u>\$ 312,663</u>	<u>\$ 431,964</u>
Total deferred tax liabilities	\$ 312,663	\$ 431,964

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2002	2001
(Thousands of dollars)		
Deferred tax assets:		
Deferred compensation, accrued vacation and other reserves	53,944	23,555
Development costs	11,079	5,741
Foreign tax loss carryforwards	16,088	90,251
Differences between book and tax basis of contracts	19,806	82,972
Difference between book and tax basis of property due to impairments	707,183	—
AMT credit carryforward	23,536	—
Domestic tax loss carry forwards	468,839	—
Other	1,348	4,904
	1,301,823	207,423
Total deferred tax assets (before valuation allowance)		
Valuation allowance	(1,077,047)	(66,622)
	\$ 224,776	\$ 140,801
Net deferred tax assets		
Net deferred tax liability	\$ 87,887	\$291,163

As of December 31, 2002, NRG Energy provided a valuation allowance to account for potential limitations on utilization of U.S. and Foreign net operating loss carryforwards of approximately \$1,143.5 million and \$81.9 million, respectively. The net operating loss carryforwards expire between 2003 and 2021. NRG Energy also provided a valuation allowance for other U.S. deferred income tax assets of approximately \$513.3 million. The increase in U.S. deferred income tax assets is primarily due to the recognition of impairment charges. During the year ended December 31, 2002, the valuation allowance increased \$1,010.4 million due to the increases in net operating loss carryforwards and deferred income tax assets for which NRG Energy is unable to conclude that there will be sufficient taxable earnings in future periods to offset the tax benefits.

As of December 31, 2002, a net deferred tax asset of approximately \$33 million was recorded relating to the investment West Coast Power. On a separate company basis, there will be sufficient taxable earnings in future periods for utilization of the tax benefits.

The effective income tax rates of continuing operations for the years ended December 31, 2002 and 2001 differ from the statutory federal income tax rate of 35% as follows:

	2002		2001	
(Thousands of dollars)				
(Loss)/Income before taxes	\$(3,073,043)		\$246,264	
Tax at 35%	(1,075,565)	35.0%	86,192	35.0%
State taxes (net of federal benefit)	(167,405)	5.4%	7,598	3.1%
Foreign operations	(55,435)	1.8%	(88,601)	-36.0%
Tax credits	0	0.0%	(48,788)	-19.8%
Limitation on tax benefits	1,077,047	-35.0%	66,622	27.1%
Permanent differences, reserves, other	55,976	-1.8%	5,029	2.0%
	\$ (165,382)	5.4%	\$ 28,052	11.4%
Income tax (benefit) expense				

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reconciliation of Funded Status

A comparison of the pension benefit obligation and pension assets at December 31, 2002 and 2001 for all of NRG's plans on a combined basis is as follows:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
	(Thousands of dollars)			
Benefit obligation at Jan. 1	\$ 36,832	\$ —	\$ 24,602	\$ 17,734
Service cost	1,478	2,240	1,206	902
Interest cost	2,403	2,412	1,831	1,402
Employee contributions	775	570	—	—
Plan amendments	—	1,118	—	(278)
Actuarial (gain)/loss	(4,804)	(87)	4,101	1,730
Acquisitions (transfers)	(7,848)	31,404	—	3,212
Benefit payments	(1,372)	(515)	(156)	(100)
Foreign currency translation	2,848	(310)	—	—
Benefit obligation at Dec. 31	\$ 30,312	\$ 36,832	\$ 31,584	\$ 24,602
Fair value of plan assets at Jan. 1	\$ 16,286	\$ —	\$ —	\$ —
Actual return on plan assets	(2,052)	(643)	—	—
Employee contributions	775	—	—	—
Employer contributions	5,816	14	156	100
Benefit payments	(1,372)	(515)	(156)	(100)
Acquisitions	—	17,334	—	—
Foreign currency translation	902	96	—	—
Fair value of plan assets at Dec. 31	\$ 20,355	\$ 16,286	\$ —	\$ —
Funded status at Dec. 31 — excess of obligation over assets	\$ (9,957)	\$ (20,545)	\$ (31,584)	\$ (24,602)
Unrecognized prior service cost	—	1,098	(229)	(253)
Unrecognized net (gain) loss	(2,294)	208	5,967	1,871
Accrued benefit liability recognized on the consolidated balance sheet at Dec. 31	\$(12,251)	\$(19,239)	\$(25,846)	\$(22,984)

The following table presents significant assumptions used:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Weighted-average assumption as of December 31,				
Discount rate	8.00%	7.00- 7.25%	6.75%	7.25%
Expected return on plan assets	8.00	7.00-9.50	—	—
Rate of compensation increase	5.00	4.00-4.50	3.50-4.50	3.50-4.50

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effect (in thousands):

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on total of service and interest cost components	\$ 375	\$ (315)
Effect on postretirement benefit obligation	3,305	(2,830)

Participation in Xcel Energy Inc. Pension Plan and Postretirement Medical Plan

Substantially, all eligible employees participate in Xcel Energy's noncontributory, defined benefit pension plan which was formerly sponsored by NSP. NRG Energy's contributions to the Xcel Energy pension plan and postretirement plan totaled \$0, \$0 and \$20,000 in 2002, 2001 and 2000. The balance sheet includes a liability related to the Xcel Energy Pension Plan of \$1.7 million and \$5.0 million for 2002 and 2001, respectively. The balance sheet also includes a liability related to the Xcel Energy Postretirement Medical Plan of \$2.2 million and \$2.3 million for 2002 and 2001, respectively. The applicable portion of the total plan benefits and net assets of these plans is not separately identifiable. The net annual periodic credit related to NRG's portion of the Xcel Energy pension plan and postretirement plans totaled \$8.9 million, \$8.9 million and \$1.7 million for 2002, 2001 and 2000, respectively.

Certain NRG employees also participate in Xcel Energy's noncontributory defined benefit supplemental retirement income plan. This plan is for the benefit of certain qualifying executive personnel. Benefits for this unfunded plan are paid out of operating cash flows. The balance sheet includes a liability related to this plan of \$3.2 million and \$2.6 million as of December 31, 2002 and 2001, respectively.

Defined Contribution Plans

Some NRG Energy employees participated in Xcel Energy's defined contribution 401(K) plan. NRG Energy contributions to the plan were approximately \$0.9 million and \$0.6 million for the years ended December 31, 2002 and 2001, respectively.

NRG Energy also assumed several contributory, defined contribution employee savings plans as a result of its 2000 and 1999 acquisition activity. These plans comply with Section 401(k) of the Internal Revenue Code and covered substantially all of our employees who were not covered by Xcel Energy's 401(k) Plan. NRG Energy matched specified amounts of employee contributions to the plan. Employer contributions made to these plans were approximately \$2.4 million and \$1.6 million in 2002 and 2001, respectively.

The Xcel Energy plan (NRG portion) was rolled into the NRG plans for 2002. Employer contributions made to all plans for 2002 were approximately \$4.6 million.

NRG Equity Plan

During 1998 and 1999, NRG Energy's employees were eligible to participate in its Equity Plan (the Plan). The Plan granted, to employees, phantom equity units that were intended to simulate Stock options. Grant size was based on the participant's position in NRG Energy and base salary. Equity unit valuations were performed annually by an outside valuation firm. The value of an equity unit was the approximate value per share of NRG Energy's stockholder equity as of the valuation date, less the value of Xcel Energy's (formerly NSP) equity investments. The units were awarded to employees annually at the respective year's calculated share price (grant price). The Plan provided employees with a cash pay out for the unit's appreciation in value over the vesting period. The Plan had 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. During 2002, 2001 and

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

2000, NRG Energy recorded compensation expense of approximately \$0, \$0, and \$6.0 million, respectively, for the Plan.

The Plan included a change of control provision, which allowed all shares to vest if NRG Energy's ownership were to change. Subsequent to the completion of NRG Energy's initial public offering in June 2000, the Plan was converted to a new stock option plan (see Note 20).

Pension and Other Benefits — 2001 Acquisitions

During 2001, NRG Energy acquired several generating assets and assumed benefit obligations for a number of employees associated with those acquisitions. The plans assumption included noncontributory defined benefit pension plans, and contributory post-retirement welfare plans. Of the 2001 acquisitions where these obligations were assumed, approximately 79% percent of such employees are represented by one local union under collective bargaining agreements, which expire on July 1, 2004. Plan liability and expense amounts for these acquisitions are included in the pension and postretirement health care amounts shown above.

Note 17 — Sales to Significant Customers

During 2002, sales to one customer (New York Independent System Operator) accounted for 22.1% of total revenues from majority owned operations in 2002. During 2001, sales to two customers accounted for 33.9% (New York Independent System Operator) and 17.6% (Connecticut Light and Power Co.) of total revenues from majority owned operations in 2001. During 2000, sales to two customers accounted for 26.8% (New York Independent System Operator) and 14.8% (Connecticut Light and Power Co.) of total revenues from majority owned operations in 2000.

Note 18 — Financial Instruments

The estimated December 31 fair values of NRG Energy's recorded financial instruments are as follows:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Cash and cash equivalents	\$ 385,055	\$ 385,055	\$ 106,102	\$ 106,102
Restricted cash	282,583	282,583	142,676	142,676
Notes receivable, including current portion	990,695	990,695	776,602	776,602
Debt, including current portion	9,385,867	6,004,300	7,492,790	7,384,434

For cash and 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.

Derivative Financial Instruments***Foreign Currency Exchange Rates***

At December 31, 2002, 2001 and 2000, NRG Energy had various foreign currency exchange instruments with combined notional amounts of \$3.0 million, \$46.3 million and \$8.8 million, respectively. These foreign currency exchange instruments were hedges of expected future cash flows. If the hedges had been terminated at December 31, 2002, 2001 and 2000, NRG Energy would have owed the counter-parties \$0.3 million, \$2.4 million and \$0.7 million, respectively.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest Rates

At December 31, 2002, 2001 and 2000, NRG Energy had various interest-rate swap agreements with combined notional amounts of \$1.7 billion, \$2.4 billion and \$530 million, respectively. These contracts are used to manage NRG Energy's exposure to changes in interest rates. If these swaps had been terminated at December 31, 2002, 2001 and 2000, NRG Energy would have owed the counter-parties \$41.0 million, \$81.5 million and \$28.9 million, respectively.

Energy Related Commodities

At December 31, 2002, 2001 and 2000 NRG Energy had various energy related commodities financial instruments with combined notional amounts of \$241.8 million, \$1.0 billion and \$309.0 million, respectively. These financial instruments take the form of fixed price, floating price or indexed sales or purchases, and options, such as puts, calls, basis transactions and swaps. These contracts are used to manage NRG Energy's exposure to commodity price variability in electricity, emission allowances and natural gas, oil and coal used to meet fuel requirements. If these contracts were terminated at December 31, 2002, 2001 and 2000, NRG Energy would have received \$58.5 million, \$224.1 million and \$52.8 million from counter-parties, respectively.

Credit Risk

NRG Energy's counter-parties to its hedging contracts consist principally of financial institutions and major energy companies. NRG Energy actively manages its exposure to counter-party risk. NRG Energy has an established credit policy in place to minimize overall credit risk. Important elements of this policy include ongoing financial reviews of all counter-parties, established credit limits, as well as monitoring, managing and mitigating credit exposure.

Note 19 — Goodwill and Other Intangible Assets

During the first quarter of 2002, NRG Energy adopted SFAS No. 142 — "Goodwill and Other Intangible Assets" (SFAS No. 142), which requires new accounting for intangible assets, including goodwill. Intangible assets with finite lives will be amortized over their economic useful lives and periodically reviewed for impairment. Goodwill will no longer be amortized, but will be tested for impairment annually and on an interim basis if an event occurs or a circumstance changes between annual tests that may reduce the fair value of a reporting unit below its carrying value.

NRG Energy had goodwill of \$34.2 million at December 31, 2002, which will not be amortized. As of December 31, 2002, NRG Energy performed impairment tests of its goodwill balances. To date, such tests completed have concluded that no write-down of goodwill is necessary primarily because the majority of the goodwill that NRG Energy has recorded relates to its Thermal operations, which have sufficient on going cashflows.

Aggregate amortization expense recognized for the twelve months ended December 31, 2002, 2001 and 2000 was approximately \$2.8 million, \$4.2 million and \$3.1 million, respectively. The annual aggregate

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

amortization expense for each of the five succeeding years is expected to approximate \$2.8 million. Intangible assets consisted of the following:

Description	At December 31, 2002		At December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Goodwill	\$34,208	\$ 6,399	\$35,833	\$ 6,647
Intangibles:				
Service contracts	\$66,640	\$ 16,470	\$65,442	\$ 13,682

The following table summarizes the pro forma impact of implementing SFAS No. 142 at January 1, 2000 on net income (loss) for the periods presented.

	For the Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Reported (loss) income from continuing operations	\$ (2,907,661)	\$ 218,212	\$ 150,929
Add back: Goodwill amortization (after-tax)	—	923	798
Adjusted (loss) income from continuing operations	\$ (2,907,661)	\$ 219,135	\$ 151,727
Reported net (loss) income	\$ (3,464,282)	\$ 265,204	\$ 182,935
Add back: Goodwill amortization (after-tax)	—	2,919	1,483
Adjusted net (loss) income	\$ (3,464,282)	\$ 268,123	\$ 184,418

Note 20 — Capital Stock

Sale of Stock

In June 2000, NRG Energy sold 32.4 million shares of common stock at \$15 per share. Net proceeds from the offering were \$453.7 million. NRG Energy has authorized capital stock consisting of 550,000,000 shares of common stock, and 250,000,000 shares of Class A common stock. At December 31, 2000, there were approximately 32,396,000 shares of common stock, and 147,605,000 shares of Class A common stock issued and outstanding.

In March 2001, NRG Energy completed the sale of 18.4 million shares of common stock for an initial price of \$27 per share. The offering was completed with all 18.4 million shares of common stock being sold including the over-allotment shares of 2.4 million. NRG Energy received gross proceeds from the issuance of \$496.6 million. Net proceeds from the issuance were \$473.4 million after deducting underwriting discounts, commissions and estimated offering expenses. The net proceeds were used in part to reduce amounts outstanding under NRG Energy's short-term bridge credit agreement, which was used to finance in part NRG Energy's acquisition of the LS Power assets. At December 31, 2001, there were approximately 50,939,875 shares of common stock, and 147,605,000 shares of Class A common stock issued and outstanding.

On June 3, 2002, Xcel Energy completed its exchange offer for the 26% of NRG Energy's shares that had been previously publicly held. Xcel Energy issued NRG Energy shareholders 0.50 shares of Xcel Energy common stock in exchange for each outstanding share of NRG Energy common stock.

Incentive Compensation Plan

In June 2000, NRG Energy adopted a new incentive compensation plan (the New Stock Plan), which was approved by shareholders in June 2001 and which will be administered by a committee appointed by the

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Board of Directors. The New Stock Plan provides for awards in the form of stock options, stock appreciation rights, restricted stock, performance units, performance shares, or cash based awards as determined by the Board of Directors. All officers, certain other employees, and non-employee directors are eligible to participate in the plan. Nine million shares of common stock are authorized for issuance under the Stock Plan. Initially, only stock option grants will be made to certain officers, independent directors and employees under the plan.

Each new option granted is valued at the fair market value per share at date of grant. The difference between the option price and the market value of the stock at the date of grant, if any, of each option on the date of grant is recorded as compensation expense over a vesting period. Options granted prior to June 2001 vest over a period of five years, with 25% vesting in each of the years two through five and generally expire ten years from the date of grant. Options granted in June 2001 and subsequently, vest over a four year period, with 25% vesting each year and generally expire ten years from the date of grant. The board's independent directors' options vested immediately upon being granted. The average exercise price of vested options at December 31, 2001 and 2000 was \$14.39 and \$9.51, respectively, all of which were granted in replacement of units previously outstanding under the equity plan. There were no grants in 2002. NRG Energy has recognized approximately \$1.9 million and \$7.3 million of stock based compensation expense for the periods ended December 31, 2001 and 2000, respectively. In 2002, NRG Energy recognized income due to the net reduction of its compensation expense accrual by approximately \$2.3 million for terminated stock options during the period. This amount has been reported as a reduction of compensation expense for the year ended December 31, 2002.

During 2002, the New Stock Plan and all grants under the plan were adopted by the Xcel Energy Incentive Stock Plan. There were no grants to NRG Energy employees under this new plan.

Note 21 — Cash Flow Information

Detail of supplemental disclosures of cash flow and non-cash investing and financing information was:

	2002	2001	2000
		(Thousands of dollars)	
Interest paid (net of amount capitalized)	\$331,679	\$ 385,885	\$ 248,325
Income taxes paid/(refunds)	\$ (17,406)	\$ 57,055	\$ 20,923
Detail of businesses and assets acquired:			
Current assets (including restricted cash)	\$ —	\$ 184,874	\$ 97,970
Fair value of non-current assets	—	4,779,530	1,896,113
Liabilities assumed, including deferred taxes	—	(2,151,287)	(81,126)
Cash paid net of cash acquired	\$ —	\$ 2,813,117	\$1,912,957

Note 22 — Commitments and Contingencies***Operating Lease Commitments***

NRG Energy leases certain of its facilities and equipment under operating leases, some of which include escalation clauses, expiring on various dates through 2023. Rental expense under these operating leases was

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

\$12.6 million, \$9.7 million and \$2.3 million in 2002, 2001 and 2000, respectively. Future minimum lease commitments under these leases for the years ending after December 31, 2002 are as follows:

	(Thousands of dollars)
2003	\$ 11,514
2004	11,220
2005	9,847
2006	9,291
2007	8,739
Thereafter	29,945
Total	<u>\$ 80,556</u>

Capital Commitments

NRG Energy anticipates funding its ongoing capital requirements through committed debt facilities, operating cash flows, and existing cash. NRG Energy's capital expenditure program is subject to continuing review and modification. The timing and actual amount of expenditures may differ significantly based upon plant operating history, unexpected plant outages, and changes in the regulatory environment, and the availability of cash.

California

NRG Energy's California generation assets include a 50% interest in the West Coast Power partnership with Dynegy.

In March 2001, the California Power Exchange (PX) filed for bankruptcy under Chapter 11 of the Bankruptcy Code, and in April 2001, the Pacific Gas & Electric Company (PG&E) also filed for bankruptcy under Chapter 11. In September 2001, PG&E filed a proposed plan of reorganization. Under the terms of the proposed plan, which is subject to challenge by interested parties, unsecured creditors such as NRG Energy's California affiliates would receive 60% of the amounts owed upon approval of the plan. The remaining 40% would be paid in negotiable debt with terms from 10 to 30 years. The California PX's ability to repay its debt is dependent on the extent to which it receives payments from PG&E and Southern California Edison Company (SCE). During the fourth quarter of 2002, after assuring the collectibility of its California receivables and other recent related developments, West Coast Power recorded an approximate \$117.0 million charge to write-off the remaining amounts owed to it by the California PX and ISO. NRG Energy's share of this charge was approximately \$58.5 million (pre-tax).

Connecticut

NRG Energy is impacted by rule/tariff changes that occur in the existing ISOs. On March 1, 2003, ISO-NE implemented its version of Standard Market Design. This change dramatically modifies the New England market structure by incorporating Locational Marginal Pricing (LMP — pricing by location rather than on a New England wide basis). Even though NRG Energy views this change as a significant improvement to the existing market design, NRG Energy still views the market within New England as insufficient to allow for NRG Energy to recover its costs and earn a reasonable return on investment. Consequently, on February 26, 2003, NRG Energy filed and requested a cost of service rate with FERC for most of its Connecticut fleet, requesting a February 27th effective date. NRG Energy remains committed to working with ISO-NE, FERC and other stakeholders to continue to improve the New England market that will hopefully make further reliance on a cost of service rate unnecessary. While NRG Energy has the right to

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

file for such rate treatment, there are no assurances that FERC will grant such rates in the form or amount that NRG Energy petitioned for in its filing.

Contractual Commitments

In connection with the acquisition of certain generating facilities NRG Energy entered into various long-term transition agreements and standard offer agreements that obligated NRG Energy to provide its customers, primarily the previous owners of the acquired facilities, with a certain portion of the energy and capacity output of the acquired facilities.

During 1999, NRG Energy acquired the Huntley and Dunkirk generating facilities from Niagara Mohawk Power Corporation (NiMo). In connection with this acquisition, NRG Energy entered into a 4-year agreement with NiMo that requires NRG Energy to provide to NiMo pursuant to a predetermined schedule fixed quantities of energy and capacity at a fixed price.

During 1999, NRG Energy acquired certain generating facilities from Connecticut Light and Power Company (CL&P). NRG also entered into a 4-year standard offer agreement that requires NRG Energy to provide to CL&P a portion of its load requirements through the year 2003 at a substantially fixed rate.

During 2000, NRG Energy acquired the non-nuclear generating assets of Cajun Electric. Upon acquisition of the facilities, NRG Energy entered into various long-term power purchase agreements with the former customers of Cajun Electric, primarily distribution cooperatives and municipalities. These agreements specify that NRG Energy provide these customers with all requirements necessary to satisfy the energy and capacity needs of their retail load.

Also during 2000, NRG Energy acquired the Killingholme generating facilities from National Power plc. In connection with this acquisition, NRG Energy entered into certain agreements to provide the natural gas to operate the facility, which generally sells its power into the spot market. NRG Energy entered into two gas purchase agreements, the first being a 5-year agreement that provides approximately 30% of the generating facilities natural gas requirements and the second agreement being a 10-year agreement that provides approximately 70% of the generating facilities natural gas requirements. NRG Energy also entered into a 5-year fixed price agreement to resell up to 15% of the gas it has contracted for at a slightly higher price. As of December 31, 2002, NRG Energy has entered into an agreement whereby the Killingholme facilities would be turned over to its lenders therefore the assets and liabilities and results of operations have been classified as discontinued operations and held for sale. On January 31, 2003, the Killingholme facilities were sold to its lenders. The obligations under the gas contracts were assumed by the lenders in the sales transaction.

Also during 2000, NRG Energy acquired the Flinders Power operations in South Australia. Upon the closing of the acquisition, NRG Energy assumed a gas purchase and sales agreement relating to the Osborne generating plant with a remaining life of 18-years. These agreements require NRG Energy to purchase a specified quantity of natural gas from a third party supplier at a fixed price for 18-years and resell the natural gas to Osborne at a fixed price for 13-years. The sales price is substantially lower than the purchase price. NRG Energy has recorded the liability associated with this out of the market contract in the amount of approximately \$66 million in other long-term obligations and deferred income on its balance sheet. As of December 31, 2002 there remains approximately \$73.3 million on NRG Energy's balance sheet. In addition, NRG Energy has entered into a contract for differences agreement which provides for the sale of energy into the South Australian power pool through the year 2002. The agreement provides for a swap of the variable market price to a fixed price.

During 2001, NRG Energy acquired a portfolio of projects located in Delaware, Maryland and Pennsylvania from Conectiv. Upon closing of the acquisition, NRG Energy assumed a power purchase agreement. This agreement, which is not project specific, requires NRG Energy to deliver and Conectiv to purchase 500 MW of electric energy around the clock at a specified price through 2005. The sales price of the

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

contracted electricity was substantially lower than the fair value that the electricity on the merchant market at the date of acquisition. During 2001, NRG Energy recorded the liability associated with the out of market contract on the balance sheet in the amount of approximately \$89.4 million. Approximately \$45.1 million was recorded in other current liabilities and approximately \$44.3 million in other long-term obligations and deferred income. The difference was to be amortized into income over the life of the agreement. In the fourth quarter of 2002, Conectiv terminated this agreement and NRG Energy recorded the unamortized balance into income as revenue, see below for additional information.

Environmental Regulatory Matters

The construction and operation of power projects are subject to stringent environmental and safety protection and land use laws and regulation in the United States. These laws and regulations generally require lengthy and complex processes to obtain licenses, permits and approvals from federal, state and local agencies. If such laws and regulations become more stringent and NRG Energy's facilities are not exempted from coverage, NRG Energy could be required to make extensive modifications to further reduce potential environmental impacts.

Under various federal, state and local environmental laws and regulations, a current or previous owner or operator of any facility, including an electric generating facility, may be required to investigate and remediate releases or threatened releases of hazardous or toxic substances or petroleum products located at the facility, and may be held liable to a governmental entity or to third parties for property damage, personal injury and investigation and remediation costs incurred by the party in connection with any releases or threatened releases. These laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, impose liability without regard to whether the owner knew of or caused the presence of the hazardous substances, and courts have interpreted liability under such laws to be strict (without fault) and joint and several. The cost of investigation, remediation or removal of any hazardous or toxic substances or petroleum products could be substantial. Although NRG Energy has been involved in on-site contamination matters, to date, NRG Energy has not been named as a potentially responsible party with respect to any off-site waste disposal matter.

NRG Energy and its subsidiaries strive to exceed the standards of compliance with applicable environmental and safety regulations. Nonetheless, NRG Energy expects that future liability under or compliance with environmental and safety requirements could have a material effect on its operations or competitive position. It is not possible at this time to determine when or to what extent additional facilities or modifications of existing or planned facilities will be required as a result of possible changes to environmental and safety regulations, regulatory interpretations or enforcement policies. In general, the effect of future laws or regulations is expected to require the addition of pollution control equipment or the imposition of restrictions on NRG Energy's operations.

As part of acquiring existing generating assets, NRG Energy has inherited certain environmental liabilities associated with regulatory compliance and site contamination. Often potential compliance implementation plans are changed, delayed or abandoned due to one or more of the following conditions: (a) extended negotiations with regulatory agencies, (b) a delay in promulgating rules critical to dictating the design of expensive control systems, (c) changes in governmental/regulatory personnel, (d) changes in governmental priorities or (e) selection of a less expensive compliance option than originally envisioned.

In response to liabilities associated with these activities, NRG Energy has established accruals where reasonable estimates of probable liabilities are possible. As of December 31, 2002 and 2001, NRG Energy has established such accruals in the amount of approximately \$3.8 million and \$5.0 million, respectively, primarily related to its Northeast region facilities (Arthur Kill and Astoria projects). NRG Energy has not used discounting in determining its accrued liabilities for environmental remediation and no claims for possible recovery from third party issuers or other parties related to environmental costs have been recognized in NRG

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Energy's consolidated financial statements. NRG Energy adjusts the accruals when new remediation responsibilities are discovered and probable costs become estimable, or when current remediation estimates are adjusted to reflect new information. During the years ended December 31, 2002, 2001 and 2000, NRG Energy recorded expenses of approximately \$10.9 million, \$15.3 million and \$3.4 million related to environmental matters, respectively.

West Coast Region

The Asset Purchase Agreements for the Long Beach, El Segundo, Encina, and San Diego gas turbine generating facilities provide that Southern California Edison and San Diego Gas & Electric retain liability and indemnify NRG Energy for existing soil and groundwater contamination that exceeds remedial thresholds in place at the time of closing. NRG Energy and its business partner conducted Phase I and Phase II Environmental Site Assessments at each of these sites for purposes of identifying such existing contamination and provided the results to the sellers. San Diego Gas & Electric is proceeding to address contamination identified by these studies by undertaking corrective action at the Encina and San Diego gas turbine generating sites. While spills and releases of various substances have occurred at many sites since establishing the historical baseline, all but one has been remediated in accordance with existing laws. An unquantified amount of soil contaminated by lubricating oil that leaked from underground piping at the El Segundo Generating Station has been allowed by the Regional Water Quality Control Board to remain under the foundation of the Unit I powerhouse until the building is demolished.

NRG Energy's affiliates have incurred and anticipates further environmental capital expenditures at the Encina Generating Station to install Selective Catalytic Reduction (SCR) emission control technology on all five generating units. Units 4 & 5 were retrofitted with SCRs during 2002; the additional SCR on Unit 3 was completed in February 2003. SCR emission controls on Units 1 and 2 are expected to be completed in 2003. NRG Energy estimates the cost to retrofit all five units to be approximately \$42 million.

Eastern Region

Coal ash is produced as a by-product of coal combustion at the Dunkirk, Huntley, and Somerset Generating Stations. NRG Energy attempts to direct its coal ash to beneficial uses. Even so, significant amounts of ash are landfilled at on and off-site locations. At Dunkirk and Huntley, ash is disposed at landfills owned and operated by NRG Energy. No material liabilities outside the costs associated with closure, post-closure care and monitoring are expected at these facilities. NRG Energy maintains financial assurance to cover costs associated with closure, post-closure care and monitoring activities. In the past, NRG Energy has provided financial assurance via financial test and corporate guarantee. NRG Energy must re-establish financial assurance via an instrument requiring complete collateralization of closure and post-closure-related costs, currently estimated at approximately \$5.8 million. NRG Energy is required to provide an alternative instrument to provide such financial assurance on or before April 30, 2003.

NRG must also maintain financial assurance for closing interim status RCRA facilities at the Devon, Middletown, Montville and Norwalk Harbor Generating Stations. Previously, NRG Energy has provided financial assurance via financial test. NRG Energy must re-establish financial assurance via an instrument requiring complete collateralization of closure and post-closure-related costs, currently estimated not to exceed \$2.4 million. NRG Energy is required to provide an alternative instrument to provide such financial assurance on or before April 30, 2003.

Historical clean-up liabilities were inherited as a part of acquiring the Somerset, Devon, Middletown, Montville, Norwalk Harbor, Arthur Kill and Astoria Generating Stations. NRG Energy has recently satisfied clean-up obligations associated with the Ledge Road property (inherited as part of the Somerset acquisition). Site contamination liabilities arising under the Connecticut Transfer Act at the Devon, Middletown, Montville and Norwalk Harbor Stations have been identified and are currently being refined as part of on-going site

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

investigations. NRG Energy does not expect to incur material costs associated with completing the investigations at these Stations or future work to cover and monitor landfill areas pursuant to the Connecticut requirements. Remedial liabilities at the Arthur Kill Generating Station have been established in discussions between NRG Energy and the New York State DEC and are expected to cost on the order of \$1.0 million. Remedial investigations are on-going at the Astoria Generating Station. At this time, NRG Energy's long-term cleanup liability at this site is not expected to exceed \$1.5 million.

NRG Energy estimates that it will incur total environmental capital expenditures of \$53 million during 2003 through 2007 for the facilities in New York, Connecticut and Massachusetts. These expenditures will be primarily related to landfill construction, installation of NO_x controls, installation of the best technology available for minimizing environmental impacts associated with impingement and entrainment of fish and larvae, particulate matter control improvements, spill prevention controls, and undertaking remedial actions. NRG Energy estimates that it will incur in 2003 at all of its plants in the Northeast Region about \$8 million in capital expenditures for plant modifications and upgrades required to comply with environmental regulations.

As of December 31, 2002, NRG Energy had recorded an accrual in the amount of \$1.6 million to cover penalties associated with historical opacity exceedances.

NRG Energy is responsible for the costs associated with closure, post-closure care and monitoring of the ash landfill owned and operated by NRG Energy on the site of the Indian River Generating Station. No material liabilities outside such costs are expected. Financial assurance to provide for closure and post-closure-related costs is currently maintained by a trust fund collateralized in the amount of approximately \$6.6 million.

NRG Energy estimates that it will incur capital expenditures of approximately \$25 million during the years 2003 through 2007 related to resolving environmental concerns at the Indian River Generating Station. These concerns include the expected closure of the existing ash landfill, the construction of a new ash landfill nearby, the addition of controls to reduce NO_x emissions, fuel yard modifications, and electrostatic precipitator refurbishments to reduce opacity.

Central Region

Liabilities associated with closure, post-closure care and monitoring of the ash ponds owned and operated on site at the Big Cajun II Generating Station are addressed through the use of a trust fund maintained by NRG Energy (one of the instruments allowed by the Louisiana Department of Environmental Quality for providing financial assurance for expenses associated with closure and post-closure care of the ponds). The current value of the trust fund is approximately \$4.5 million and NRG Energy is making annual payments to the fund in the amount of about \$116,000. See Note 25.

NRG Energy estimates approximately \$20 million of capital expenditures will be incurred during the period 2003 and 2007 for the addition of NO_x controls on Units 1 and 2 of Big Cajun II. In addition, NRG Energy estimates that it would incur up to \$5 million to reduce particulate matter emissions during start-up of Units 1 and 2 at Big Cajun II.

NYISO Claims

In November 2002, the NYISO notified NRG Energy of claims related to New York City mitigation adjustments, general NYISO billing adjustments and other miscellaneous charges related to sales between November 2000 and October 2002. NRG Energy contests both the validity and calculation of the claims and is currently negotiating with the NYISO over the ultimate disposition. Accordingly, NRG Energy reduced its revenues by \$21.7 million and recorded a corresponding reserve for the receivable.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Conectiv Agreement Termination

On November 8, 2002 Conectiv provided NRG Energy with a Notice of Termination of Transaction under the Master Power Purchase and Sale Agreement (Master PPA) dated June 21, 2001. Under the Master PPA, which was assumed by NRG Energy in its acquisition of various assets from Conectiv, NRG Energy had been required to deliver 500 MW of electrical energy around the clock at a specified price through 2005. In connection with the Conectiv acquisition, NRG Energy recorded as an out-of-market contract obligation for this contract. As a result of the cancellation, NRG Energy will lose approximately \$383.1 million in future contracted revenues. Also, in conjunction with the terms of the Master PPA, NRG Energy received from Conectiv a termination payment in the amount of \$955,000. At December 31, 2002, the remaining unamortized balance of the contract obligation was recognized as revenue. As a result, during the fourth quarter approximately \$50.7 million was recognized as revenue.

Legal Issues

California Wholesale Electricity Litigation and Related Investigations

People of the State of California ex. rel. Bill Lockyer, Attorney General, v. Dynegy, Inc. et al., United States District Court, Northern District of California, Case No. C-02-O1854 VRW; United States Court of Appeals for the Ninth Circuit, Case No. 02-16619.

This action was filed in state court on March 11, 2002. It alleges that the defendants violated California Business & Professions Code § 17200 by selling ancillary services to the California ISO, and subsequently selling the same capacity into the spot market. The Attorney General seeks injunctive relief as well as restitution, disgorgement and civil penalties.

On April 17, 2002, the defendants removed the case to the United States District Court in San Francisco. Thereafter, the case was transferred to Judge Vaughn Walker, who is also presiding over various other “ancillary services” cases brought by the California Attorney General against other participants in the California market, as well as other lawsuits brought by the Attorney General against these other market participants. NRG Energy has tolling agreements in place with the Attorney General with respect to such other proposed claims against it.

The Attorney General filed motions to remand, which the defendants opposed in July of 2002. In an Order filed in early September 2002, Judge Walker denied the remand motions. The Attorney General has appealed that decision to the United States Court of Appeal for the Ninth Circuit, and the appeal remains pending. The Attorney General also sought a stay of proceedings in the district court pending the appeal, and this request was also denied. A “Notice of Bankruptcy Filing” respecting NRG Energy was filed in the Ninth Circuit and in the District Court in mid-December 2002. The Attorney General filed a paper asserting that the “police power” exception to the automatic stay is applicable here. Judge Walker agreed with the Attorney General on this issue. In a lengthy opinion filed March 25, 2003, Judge Walker dismissed the Attorney General’s action against NRG and Dynegy with prejudice, finding it was barred by the filed rate doctrine and preempted by federal law. The Attorney General has announced it will appeal the dismissal. NRG Energy is unable at this time to accurately estimate the damages sought by the Attorney General against NRG Energy and its affiliates, or predict the outcome of the case.

A “Notice of Bankruptcy Filing” respecting NRG Energy was filed in the Ninth Circuit and in the District Court in mid-December, 2002. The Attorney General filed a paper asserting that the “police power” exception to the automatic stay is applicable here.

Public Utility District of Snohomish County v. Dynegy Power Marketing, Inc et al., Case No. 02-CV-1993 RHW, United States District Court, Southern District of California (part of MDL 1405).

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This action was filed against Dynegy, NRG Energy, Xcel Energy and several other market participants in the United States District Court in Los Angeles on July 15, 2002. The Complaint alleges violations of the California Business & Professions Code § 16720 (the Cartwright Act) and Business & Professions Code § 17200. The basic claims are price fixing and restriction of supply, and other market “gaming” activities.

The action was transferred from Los Angeles to the United States District Court in San Diego and was made a part of the Multi-District Litigation proceeding described below. All defendants filed motions to dismiss and to strike in the fall of 2002. In an Order dated January 6, 2003, the Honorable Robert Whaley, a federal judge from Spokane sitting in the United States District Court in San Diego, pursuant to the Order of the MDL Panel, granted the motions to dismiss on the grounds of federal preemption and filed-rate doctrine. The plaintiffs have filed a notice of appeal.

In re: Wholesale Electricity Antitrust Litigation, MDL 1405, United States District Court, Southern District of California, pending before Honorable Robert H. Whaley. The cases included in this proceeding are as follows:

1. *Pamela R Gordon, on Behalf of Herself and All Others Similarly Situated v Reliant Energy, Inc. et al.*, Case No. 758487, Superior Court of the State of California, County of San Diego (filed on November 27, 2000).
2. *Ruth Hendricks, On Behalf of Herself and All Others Similarly Situated and On Behalf of the General Public v. Dynegy Power Marketing, Inc. et al.*, Case No. 758565, Superior Court of the State of California, County of San Diego (filed November 29, 2000).
3. *The People of the State of California, by and through San Francisco City Attorney Louise H. Renne v. Dynegy Power Marketing, Inc. et al.*, Case No. 318189, Superior Court of California, San Francisco County (filed January 18, 2001).
4. *Pier 23 Restaurant, A California Partnership, On Behalf of Itself and All Others Similarly Situated v PG&E Energy Trading et al.*, Case No. 318343, Superior Court of California, San Francisco County (filed January 24, 2001).
5. *Sweetwater Authority, et al. v. Dynegy Inc. et al.*, Case No. 760743, Superior Court of California, San Diego County (filed January 16, 2001).
6. *Cruz M Bustamante, individually, and Barbara Matthews, individually, and on behalf of the general public and as a representative taxpayer suit, v. Dynegy Inc. et al., inclusive.* Case No. BC249705, Superior Court of California, Los Angeles County (filed May 2, 2001).

These cases were all filed in late 2000 and 2001 in various state courts throughout California. They allege unfair competition, market manipulation, and price fixing. All the cases were removed to the appropriate United States District Courts, and were thereafter made the subject of a petition to the Multi-District Litigation Panel (Case No. MDL 1405). The cases were ultimately assigned to Judge Whaley. Judge Whaley entered an order in 2001 remanding the cases to state court, and thereafter the cases were coordinated pursuant to state court coordination proceedings before a single judge in San Diego Superior Court. The defendants filed motions to dismiss and to strike under the filed-rate and federal preemption theories, and the plaintiffs challenged the district court’s jurisdiction and sought to have the cases remanded to state court. In December 2002, Judge Whaley issued an opinion finding that federal jurisdiction was absent in the district court, and remanding the cases to state court. Duke Energy and Reliant Energy have filed a notice of appeal with the Ninth Circuit, and also sought a stay of the remand pending appeal. The stay request was denied by Judge Whaley. On February 20, 2003, however, the Ninth Circuit stayed the remand order and accepted jurisdiction to hear the appeal of Reliant Energy and Duke Energy on the remand order. The Company anticipates that filed-rate/federal preemption pleading challenges will once again be filed once the remand

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appeal is decided. A “Notice of Bankruptcy Filing” respecting NRG Energy has also been filed in this action, providing notice of the involuntary petition.

“Northern California” cases against various market participants, not including NRG Energy (part of MDL 1405). These include the *Millar, Pastorino, RDJ Farms, Century Theatres, El Super Burrito, Leo’s, J&M Karsant*, and the *Bronco Don* cases. NRG Energy, Inc. was not named in any of these cases, but in virtually all of them, either West Coast Power or one or more of the operating LLC’s with which the Company is indirectly affiliated is named as a defendant. These cases all allege violation of Business & Professions Code § 17200, and are similar to the various allegations made by the Attorney General. Dynegy is named as a defendant in all these actions, and Dynegy’s outside counsel is representing both Dynegy and the West Coast Power entities in each of these cases.

“Pacific Northwest” cases: *Symonds v. Dynegy Power Marketing et al.*, United States District Court, Western District of Washington, Case No. CV02-2552; *Lodewick v. Dynegy Power Marketing et al.*, Oregon Circuit Court Case No. 0212-12771. These cases were just recently asserted and contain similar claims to those found in the California cases described above. There has been little activity in either case.

Bustamante v. McGraw-Hill Companies Inc., et al., No. BC 285598, California Superior Court, Los Angeles County

This putative class action lawsuit was filed on November 20, 2002. In addition to naming WCP-related entities as defendants, numerous industry participants are named in this lawsuit that are unrelated to WCP or NRG Energy. The Complaint generally alleges that the defendants attempted to manipulate gas indexes by reporting false and fraudulent trades. Named defendants in the suit are the LLCs established by WCP for each of its four plants: El Segundo Power, LLC; Long Beach Generation, LLC; Cabrillo Power I LLC; and Cabrillo Power II LLC. NRG Energy is not named as a defendant. The complaint seeks restitution and disgorgement of “ill-gotten gains”, civil fines, compensatory and punitive damages, attorneys’ fees, and declaratory and injunctive relief.

Dynegy has agreed with NRG Energy that it will indemnify and hold harmless the named defendants in the *Bustamante* lawsuit, as well as NRG Energy, from any civil fines, compensatory damages, punitive damages, costs, and fees that may be entered pursuant to either a final judgment or a settlement of claims. Dynegy has also agreed that it will pay all costs and attorneys’ fees associated with the defense of the named defendants in the *Bustamante* lawsuit, as well as any defense costs for NRG Energy.

Investigations

FERC — California Market Manipulation

The Federal Energy Regulatory Commission has an ongoing “Investigation of Potential Manipulation of Electric and Natural Gas Prices,” which involves hundreds of parties and substantial discovery. In June, 2001, FERC initiated proceedings related to California’s demand for \$8.9 billion in refunds from power sellers who allegedly inflated wholesale prices during the energy crisis. Hearings have been conducted before an administrative law judge who issued an opinion in late 2002. The administrative law judge stated that after assessing a refund of \$1.8 billion for “unjust and unreasonable” power prices between October 2, 2000 and June 20, 2001, power suppliers were owed \$1.2 billion because the State was holding funds owed to suppliers.

In August, 2002, the 9th U.S. Circuit Court of Appeals granted a request by the Electricity Oversight Board, the California Public Utilities Commission, and others, to seek out and introduce to FERC additional evidence of market manipulation by wholesale sellers. This decision resulted in FERC ordering an additional 100 days of discovery in the refund proceeding, and also allowing the relevant time period for potential refund liability to extend back an additional nine months, to January 1, 2000.

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On December 12, 2002, FERC Administrative Law Judge Birchman issued a Certification of Proposed Findings on California Refund Liability in Docket No. EL00-95-045 *et al.*, which determined the method for the mitigated energy market clearing price during each hour of the refund period. On March 26, 2003, FERC issued an Order on Proposed Findings on Refund Liability in Docket No. EL00-95-045 ("Refund Order"), adopting, in part, and modifying, in part, the Proposed Findings issued by Judge Birchman on December 12, 2002. In the Refund Order, FERC adopted the refund methodology in the Staff Final Report on Price Manipulation in Western Markets issued contemporaneously with the Refund Order in Docket No. PA02-2-000. This refund calculation methodology makes certain changes to Judge Birchman's methodology, because of FERC Staff's findings of manipulation in gas index prices. This could materially increase the estimated refund liability. The Refund Order also directs generators that want to recover any fuel costs above the mitigated market clearing price during the refund period to submit cost information justifying such recovery within forty (40) days of the issuance of the Refund Order. FERC announced in the Refund Order that it expects that refunds will be paid by suppliers by the end of summer 2003.

California Attorney General

In addition to the litigation it has undertaken described above, the California Attorney General has undertaken an investigation entitled *In the Matter of the Investigation of Possibly Unlawful, Unfair, or Anti-Competitive Behavior Affecting Electricity Prices in California*. In this connection, the Attorney General has issued subpoenas to Dynegy, served interrogatories on Dynegy and NRG Energy, and informally requested documents and interviews from Dynegy and Dynegy employees as well as NRG Energy and NRG Energy employees. NRG Energy responded to the interrogatories last summer, with the final set of responses being served on September 3, 2002. NRG Energy has also produced a large volume of documentation relating to the West Coast Power plants. In addition, three NRG Energy employees in California have sat for informal interviews with representatives of the Attorney General's office. Dynegy employees have also been interviewed. The Attorney General's office has requested an additional interview with NRG Energy's plant manager of El Segundo.

Although any evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss in the above-referenced private actions and various investigations cannot be made at this time, NRG Energy notes that the Gordon complaint alleges that the defendants, collectively, overcharged California ratepayers during 2000 by \$4.0 billion. NRG Energy knows of no evidence implicating NRG Energy in plaintiffs' allegations of collusion. NRG Energy cannot predict the outcome of these cases and investigations at this time.

The Minnesota Involuntary Bankruptcy Case

On November 22, 2002, a petition commencing an involuntary bankruptcy proceeding pursuant to Chapter 11 of the Bankruptcy Code was filed by five of NRG Energy's former officers, Brian Bird, Leonard Bluhm, Craig Mataczynski, John Noer and David Peterson in the United States Bankruptcy Court for the District of Minnesota. Roy Hewitt and James Bender subsequently joined in the petition. NRG Energy has subsequently filed an answer and a motion to dismiss the Involuntary Case. The court will consider the motion to dismiss. In their petition filed with the Minnesota Bankruptcy Court, the petitioners sought recovery of severance and other benefits in an aggregate amount of \$27.7 million.

Since the commencement of the Minnesota involuntary case, NRG Energy and its counsel have been involved in extensive negotiations with the petitioners and their counsel. As a result of these negotiations, NRG Energy and the petitioners reached an agreement and compromise regarding their respective claims against each other. On February 17, 2003, the Settlement Agreement was executed by the Petitioners and NRG Energy, pursuant to which NRG Energy agreed to pay the Petitioners an aggregate settlement in the amount of \$12.2 million.

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On February 28, 2003, Stone & Webster, Inc. and Shaw Constructors, Inc. filed a Joinder in Involuntary Petition alleging that they hold unsecured, non-contingent claims against NRG Energy, in a joint amount of \$100 million. On March 20, 2003, Connecticut Light & Power Company filed an opposition to the NRG Energy motion to dismiss the Involuntary Case.

The Minnesota Bankruptcy Court has discretion in reviewing and ruling on the motion to dismiss and the review and approval of the settlement agreement. There is a risk that the Minnesota Bankruptcy Court may, among other things, reject the settlement agreement or enter an order for relief under Chapter 11 of the Bankruptcy Code, thus commencing a Chapter 11 case for NRG Energy.

Fortistar Capital Inc. v. NRG Energy, Inc., Hennepin County District Court.

On July 12, 1999, Fortistar Capital Inc. sued NRG Energy in Minnesota state court. The complaint sought injunctive relief and damages of over \$50 million resulting from NRG Energy's alleged breach of a letter agreement with Fortistar relating to the Oswego power plant. NRG Energy asserted counterclaims. After considerable litigation, the parties entered into a conditional, confidential settlement agreement, which was subject to necessary board and lender approvals. NRG Energy was unable to obtain necessary approvals. Fortistar has moved the court to enforce the settlement, seeking damages in excess of \$35 million plus interest and attorneys' fees. NRG Energy is opposing Fortistar's motion on the grounds that conditions to contract performance have not been satisfied. No decision has been made on the pending motion, and NRG Energy cannot predict the outcome of this dispute.

Fortistar RICO Claims/ Indemnity Requests

On Feb. 26, 2003, Fortistar Capital, Inc. and Fortistar Methane, LLC filed a lawsuit in the Federal District Court for the Northern District of New York against Xcel Energy and five present or former NRG Energy or NEO officers and employees. NRG Energy is a wholly owned subsidiary of Xcel Energy, and NEO is a wholly owned subsidiary of NRG Energy. In the lawsuit, Fortistar claims that the defendants violated the Racketeer Influenced and Corrupt Organizations Act ("RICO") and committed fraud by engaging in a pattern of negotiating and executing agreements "they intended not to comply with" and "made false statements later to conceal their fraudulent promises." The plaintiffs allege damages of some \$350 million and also assert entitlement to a trebling of these damages under the provisions of the RICO Act. The present and former NRG Energy and NEO officers and employees have requested indemnity from NRG Energy, which requests NRG Energy is now examining. NRG Energy cannot at this time estimate the likelihood of an unfavorable outcome to the defendants in this lawsuit.

NEO Corporation, a Minnesota Corporation on Behalf of Itself and on Behalf of Minnesota Methane, LLC, a Delaware Limited Liability Company v. Fortistar Methane, LLC, a Delaware Limited Liability Company, Hennepin County District Court

NEO Corporation, a wholly owned subsidiary of NRG Energy, brought this lawsuit in January of 2001. NEO has asserted claims for breach of contract, breach of the covenant of good faith and fair dealing, fraudulent misrepresentations and omissions, defamation, business disparagement and derivative claims. Fortistar Methane, LLC denied NEO's claims and counterclaimed alleging breach of contract, fraud, negligent misrepresentation and breach of warranty. NEO has denied Fortistar Methane's claims and intends to pursue its claims. Discovery has not been conducted. The parties entered into a conditional, confidential settlement of this matter and the Fortistar Capital action, described above. The agreement, however, was subject to necessary board and lender approvals. NEO was unable to obtain necessary approvals. Fortistar Methane has moved to enforce the settlement, seeking damages against NRG Energy in excess of \$35 million plus interest and attorneys' fees. NRG Energy and NEO are opposing Fortistar's motion on the grounds that

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conditions to contract performance were not met. No decision has been rendered on the pending motion. NRG Energy cannot predict the likelihood of an unfavorable outcome.

Connecticut Light & Power Company v. NRG Power Marketing Inc., Docket No. 3:01-CV-2373 (A WT), pending in the United States District Court, District of Connecticut

This matter involves a claim by Connecticut Light & Power Company for recovery of amounts it claims is owing for congestion charges under the terms of a Standard Offer Services contract between the parties, dated October 29, 1999. CL&P has served and filed its motion for summary judgment and to which NRG Power Marketing filed a response in March 2003. CL&P has offset approximately \$30 million from amounts owed to NRG Power Marketing, claiming that it has the right to offset those amounts under the contract. NRG Power Marketing has counterclaimed seeking to recover those amounts, among other things arguing that CL&P has no rights under the contract to offset them. NRG Power Marketing cannot estimate at this time the likelihood of an unfavorable outcome in this matter, or the overall exposure for congestion charges for the full term of the contract.

The State of New York and Erin M. Crotty, as Commissioner of the New York State Department of Environmental Conservation v. Niagara Mohawk Power Corporation et al., United States District Court for the Western District of New York, Civil Action No. 02-CV-002S

In January, 2002, NRG Energy and Niagara Mohawk Power Corporation (“NiMo”) were sued by the New York Department of Environmental Conservation in federal court in New York. The complaint asserts that projects undertaken at NRG Energy’s Huntley and Dunkirk plants by NiMo, the former owner of the facilities, should have been permitted pursuant to the Clean Air Act and that the failure to do so violated federal and state laws. In July, 2002, NRG Energy filed a motion to dismiss. The motion is still pending before the judge and there has been no further action taken in connection with the case. On March 27, 2003 the court dismissed the complaint against NRG Energy without prejudice. It is possible the State will appeal this dismissal to the Second Circuit Court of Appeals or could re-file a case against NRG Energy. If the case ultimately is litigated to a judgment and there is an unfavorable outcome that could not be addressed through use of compliant fuels and/or a plant wide applicability limit, NRG Energy has estimated that the total investment that would be required to install pollution control devices could be as high as \$300 million over a ten to twelve-year period, and NRG Energy maybe responsible for payment of certain penalties and fines.

Niagara Mohawk Power Corporation v. NRG Energy, Inc., Huntley Power, LLC, and Dunkirk Power, LLC, Supreme Court, State of New York, County of Onondaga, Case No. 2001-4372

NRG Energy has asserted that NiMo is obligated to indemnify it for any related compliance costs associated with resolution of the enforcement action. NiMo has filed suit in state court in New York seeking a declaratory judgment with respect to its obligations to indemnify NRG Energy under the asset sales agreement.

Huntley Power LLC, Dunkirk Power LLC and Oswego Harbor Power LLC

All three of these facilities have been issued Notices of Violation with respect to opacity exceedances. NRG Energy has been engaged in consent order negotiations with the New York State Department of Environmental Conservation relative to opacity issues affecting all three facilities periodically since 1999. One proposed consent order was forwarded by DEC under cover of a letter dated January 22, 2002, which makes reference to 7,890 violations at the three facilities and contains a proposed payable penalty for such violations of \$900,000. On February 5, 2003, DEC sent to us a proposed Schedule of Compliance and asserted that it is to be used in conjunction with newly-drafted consent orders. NRG Energy has not yet received the consent orders although NRG Energy has been told by DEC that DEC is now seeking a penalty in excess of that cited

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in its January 22, 2002 letter. NRG Energy expects to continue negotiations with DEC regarding the proposed consent orders, including the Schedule of Compliance and the penalty amount. NRG Energy cannot predict whether those discussions with the DEC will result in a settlement and, if they do, what sanctions will be imposed. In the event that the consent order negotiations are unsuccessful, NRG Energy does not know what relief DEC will seek through an enforcement action and what the result of such action will be.

Niagara Mohawk Power Corporation v. Dunkirk Power LLC, et al., Supreme Court, Erie County, Index No. 1-2000-8681

On October 2, 2000, plaintiff Niagara Mohawk Power Corporation commenced this action against NRG Energy to recover damages, plus late fees, less payments received, through the date of judgment, as well as any additional amounts due and owing for electric service provided to the Dunkirk Plant after September 18, 2000. Plaintiff Niagara Mohawk claims that NRG Energy has failed to pay retail tariff amounts for utility services commencing on or about June 11, 1999 and continuing to September 18, 2000 and thereafter. Plaintiff has alleged breach of contract, suit on account, violation of statutory duty, and unjust enrichment claims. On or about October 23, 2000, NRG Energy served an answer denying liability and asserting affirmative defenses.

After proceeding through discovery, and prior to trial, the parties and the court entered into a stipulation and order filed August 9, 2002 consolidating this action with two other actions against the Company's Huntley and Oswego subsidiaries, both of which cases assert the same claims and legal theories for failure to pay retail tariffs for utility services.

On October 8, 2002, a Stipulation and Order was filed in the Erie County Clerk's Office staying this action pending submission of some or all of the disputes in the action to the FERC. NRG Energy cannot make an evaluation of the likelihood of an unfavorable outcome. The cumulative potential loss could exceed \$35 million.

Pointe Coupee Parish Police Jury and Louisiana Generating, LLC v. United States Environmental Protection Agency and Christine Todd Whitman, Administrator, Adversary Proceeding No. 02-61021 on the Docket of the United States Court of Appeals for the Fifth Circuit

On December 2, 2002, a Petition for Review was filed to appeal the United States Environmental Protection Agency's approval of the Louisiana Department of Environmental Quality's ("DEQ") revisions to the Baton Rouge State Implementation Plan ("SIP"). Pointe Coupee and NRG Energy's subsidiary, Louisiana Generating, object to the approval of SIP Section 4.2.1. *Permitting NO_x Sources* that purports to require DEQ to obtain offsets of major increases in emissions of nitrogen oxides (NO_x) associated with major modifications of existing facilities or construction of new facilities both in the Baton Rouge Ozone Nonattainment Area and in four adjoining attainment parishes referred to as the Region of Influence, including Pointe Coupee Parish. The plaintiffs' challenge is based on DEQ's failure to comply with Administrative Procedures Act requirements related to rulemaking and EPA's regulations which prohibit EPA from approving a SIP not prepared in accordance with state law. The court granted a sixty (60) day stay of this proceeding on February 25, 2003 to allow the parties to conduct settlement discussions. At this time, NRG Energy is unable to predict the eventual outcome of this matter or the potential loss contingencies, if any, to which the Company may be subject.

In the Matter of Louisiana Generating, LLC, Adversary Proceeding No. 2002-1095 1-EQ on the Docket of the Louisiana Division of Administrative Law

During 2000, DEQ issued a Part 70 Air Permit modification to Louisiana Generating to construct and operate two 240 MW natural gas-fired turbines. The Part 70 Air Permit set emissions limits for the criteria air pollutants, including Nox, based on the application of Best Available Control Technology ("BACT"). The BACT limitation for NO_x was based on the guarantees of the manufacturer, Siemens-Westinghouse.

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Louisiana Generating sought an interim emissions limit to allow Siemens-Westinghouse time to install additional control equipment. To establish the interim limit, DEQ issued a Compliance Order and Notice of Potential Penalty, No. AE-CN-02-0022, on September 8, 2002, which is, in part, subject to the referenced administrative hearing. DEQ alleged that Louisiana Generating did not meet its NO_x emissions limit on certain days, did not conduct all opacity monitoring and did not complete all record keeping and certification requirements. Louisiana Generating intends to vigorously defend certain claims and any future penalty assessment, while also seeking an amendment of its limit for NO_x. An initial status conference has been held with the Administrative Law Judge and quarterly reports will be submitted to describe progress, including settlement and amendment of the limit. In addition, NRG Energy may assert breach of warranty claims against the manufacturer. With respect to the administrative action described above, at this time NRG Energy is unable to predict the eventual outcome of this matter or the potential loss contingencies, if any, to which the Company may be subject.

NRG Sterlington Power, LLC

During 2002, NRG Sterlington conducted a review of the Sterlington Power Facility's Part 70 Air Permit obtained by the facility's former owner and operator, Koch Power, Inc. Koch had outlined a plan to install eight 25 megawatt (MW) turbines to reach a 200 MW limit in the permit. Due to the inability of several units to reach their nameplate capacity, Koch determined that it would need additional units to reach the electric output target. In August 2000, NRG Sterlington acquired the remaining interests in the facility not originally held on a passive basis and sought the transfer of the Part 70 Air Permit along with a modification to incorporate two 17.5 MW turbines installed by Koch and to increase the total number of turbines to ten. The permit modification was issued February 13, 2002. During further review, NRG Sterlington determined that a ninth unit had been installed prior to issuance of the permit modification. In keeping with its environmental policy, it disclosed this matter to DEQ during April, 2002. Additional information was provided during July 2002. As DEQ has not acted to date to institute an enforcement proceeding, NRG Energy suspects that it may not. However, as it is not time barred from doing so, NRG Energy is unable at this time to predict the eventual outcome or potential loss contingencies, if any, to which the Company may be subject.

FERC Investigation of Saguaro Power Company

On February 24, 2003, FERC initiated an investigation into whether Saguaro Power Company satisfied or currently satisfies the statutory and regulatory requirements for a qualifying facility under the Public Utility Regulatory Policies Act of 1978 ("PURPA"). PURPA provides special benefits for qualifying facilities regarding their rights to sell the electrical output of generation projects to electric utilities and exempts qualifying facilities from certain state and federal regulation. NRG Energy's wholly-owned subsidiary, Eastern Sierra Power Company, owns a 49% general partnership interest and a 1% limited partnership interest in Saguaro. The FERC Order initiating the investigation notes that certain financing arrangements between Enron North America and Boulder Power LLC, an indirect owner of a 14% general partnership interest and a 1% limited partnership interest in Saguaro, may have caused Saguaro not to meet the limitations on electric utility ownership applicable to qualifying facilities under PURPA and FERC regulations. At this time, NRG Energy is unable to predict the likelihood of an unfavorable outcome of this matter or the remedies that the FERC would impose in the event it found that Saguaro did not or does not satisfy the requirements for a qualifying facility.

Stone & Webster, Inc. and Shaw Constructors, Inc. v. NRG Energy, Inc. et al.

On October 17, 2002, Stone & Webster, Inc. and Shaw Constructors, Inc. filed a lawsuit against NRG Energy, Xcel Energy, Inc., NRG Granite Acquisition LLC, Granite Power Partners II LP and two of Xcel Energy's executives relating to the construction of a power plant in Pike County, Mississippi. Plaintiffs generally allege that they were not paid for work performed to construct the power plant, and have sued the

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parent entities of the company with which they contracted to build the plant in order to recover amounts allegedly owing. Plaintiffs assert claims for breach of fiduciary duty, piercing the corporate veil, breach of contract, tortious interference with contract, enforcement of the NRG Energy guaranty, detrimental reliance, negligent or intentional misrepresentation, conspiracy, and aiding and abetting. On December 23, 2002, NRG Energy moved to dismiss the complaint in its entirety for failure to state a claim upon which relief can be granted. NRG Energy is currently awaiting plaintiffs' response to the motion. No trial date has yet been set in this matter and NRG Energy cannot presently predict the outcome of the dispute.

The Mississippi Involuntary Case

On October 17, 2002, a petition commencing an involuntary bankruptcy proceeding pursuant to Chapter 7 of the Bankruptcy Code was filed against LSP-Pike Energy, LLC, a subsidiary of NRG Energy, by Stone & Webster, Inc. and Shaw Constructors, Inc. — the joining petitioners in the Minnesota involuntary case described above — in the United States Bankruptcy Court for the Southern District of Mississippi. In their petition filed with the Mississippi Bankruptcy Court, the joining petitioners sought recovery of allegedly unpaid contractual construction-related obligations in an aggregate amount of \$73,833,328, which amount LSP-Pike Energy, LLC has disputed. LSP-Pike Energy, LLC filed an answer to the petition in the Mississippi involuntary case and served various interrogatory and deposition discovery requests on the joining petitioners. The Mississippi Bankruptcy Court has not entered any order for relief in the Mississippi involuntary case.

FirstEnergy Arbitration Claim

On November 29, 2001, The Cleveland Electric Illuminating Company, The Toledo Edison Company and FirstEnergy Ventures ("Sellers") entered into Purchase and Sale Agreements with NRG Able Acquisition LLC, which were guaranteed by NRG (collectively, "Purchasers"), for the purchase of certain power plants for approximately \$1.5 billion. On August 8, 2002, Sellers terminated the agreements and asserted that Purchasers were liable for anticipatory breach of the Purchase and Sale Agreements on the grounds that they could not finance the purchases. On August 8, 2002, Purchasers provided notice that they disagreed with Sellers' assertion. After Sellers filed a motion seeking a waiver of the automatic stay of Section 362(a) of the Bankruptcy Code, on February 21, 2003, Sellers, NRG Energy, and NRG Northern Ohio Generating LLC, f/k/a/ NRG Able, stipulated to the United States Bankruptcy Court, District of Minnesota, that they would agree to a waiver of the automatic stay, thereby allowing Sellers to commence arbitration against Purchasers regarding their dispute. The collection of any award, however, would remain fully subject to NRG Energy's automatic stay. The Bankruptcy Court approved the stipulation. On February 26, 2002, Sellers provided notice of their intent to commence arbitration proceedings against Purchasers. Sellers have yet to quantify their damage claim, though Sellers have stated publicly that they will seek to recover several hundred million dollars. NRG Energy cannot presently predict the outcome of this dispute.

General Electric Company and Siemens Westinghouse Turbine Purchase Disputes

NRG Energy and/or its affiliates have entered into several turbine purchase agreements with affiliates of General Electric Company and Siemens Westinghouse Power Corporation. GE and Siemens have notified NRG Energy that it is in default under certain of those contracts, terminated such contracts, and demanded that NRG Energy pay the termination fees set forth in such contracts. GE's claim amounts to \$120 million and Siemens' approximately \$45 million in cumulative termination charges. NRG Energy has recorded a liability for the amounts they believe they owe under the contracts and termination provisions. NRG Energy cannot estimate the likelihood of unfavorable outcomes in these disputes.

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Itiquira Energetica, S.A.

NRG Energy's indirectly controlled Brazilian project company, Itiquira Energetica S.A., the owner of a 156MW hydro project in Brazil, is currently in arbitration with the former EPC contractor for the project, Inepar Industria e Construcoes (Inepar). The dispute was commenced by Itiquira in September, 2002 and pertains to certain matters arising under the former EPC contract. Itiquira principally asserts that Inepar breached the contract and caused damages to Itiquira by (i) failing to meet milestones for substantial completion; (ii) failing to provide adequate resources to meet such milestones; (iii) failing to pay subcontractors amounts due; and (iv) being insolvent. Itiquira's arbitration claim is for approximately US\$40 million. Inepar has asserted in the arbitration that Itiquira breached the contract and caused damages to Inepar by failing to recognize events of force majeure as grounds for excused delay and extensions of scope of services and material under the contract. Inepar's damage claim is for approximately US\$10 million. On November 12, 2002, Inepar submitted its affirmative statement of claim, and Itiquira submitted its response and statement of counterclaims on December 14, 2002. Inepar replied to Itiquira's response and counterclaims on January 14, 2003. Itiquira is to submit its reply to Inepar's January 14 filing on March 14, 2003, and a hearing was held on March 21, 2003. NRG Energy cannot estimate the likelihood of an unfavorable outcome in this dispute.

NRG Energy Credit Defaults

NRG Energy and various of its subsidiaries are in default under various of their credit facilities, financial instruments, construction agreements and other contracts, which have given rise to liens, claims and contingencies against them and may in the future give rise to additional liens, claims and contingencies against them. In addition, NRG Energy and various of its subsidiaries have entered into various guarantees, equity contribution agreements, and other financial support agreements with respect to the obligations of their affiliates, which have given rise to liens, claims and contingencies against them and may in the future give rise to additional liens, claims and contingencies against the party or parties providing the financial support. NRG Energy cannot predict the outcome or financial impact of these matters.

Note 23 — Segment Reporting

NRG Energy conducts its business within six segments: Independent Power Generation in North America, Independent Power Generation outside North America (Europe, Asia Pacific and Other Americas regions), Alternative Energy and Thermal projects. NRG Energy's Revenues from majority owned operations attributable to Europe and Asia Pacific primarily relate to operations in the United Kingdom and Australia, respectively. These segments are distinct components with separate operating results and management structures in place. The "Other" category includes operations that do not meet the threshold for separate disclosure and corporate charges (primarily interest expense) that have not been allocated to the operating segments.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Power Generation			
	North America	Europe	Asia Pacific	Other Americas
	(Thousands of dollars)			
2002				
Operating Revenues and Equity Earnings				
Revenues from majority-owned operations	\$ 1,650,865	\$ 107,466	\$ 172,372	\$ 58,185
Equity in earnings of unconsolidated affiliates	42,923	25,434	23,150	713
Total operating revenues and equity earnings	1,693,788	132,900	195,522	58,898
Depreciation and amortization	185,488	165	14,968	13,604
Write down and losses on equity method				
investments	42,989	—	139,859	—
Special charges	2,096,316	50,188	1,546	3,525
Operating Income	(1,823,330)	(4,934)	(123,842)	11,341
Other income (expense), net	828	10,083	(2,069)	1,398
Interest expense	(267,505)	(703)	(4,398)	(7,884)
Income before income taxes	(2,091,762)	4,446	(130,309)	5,320
Income tax expense	15,432	15,017	(700)	1,808
Net Income (Loss) from continuing operations	(2,107,194)	(10,571)	(129,609)	3,512
Net Income (Loss) from discontinued				
operations	2,167	(448,414)	(101,312)	(9,062)
Net Income (Loss)	(2,105,027)	(458,985)	(230,921)	(5,550)
Balance Sheet				
Equity investments in affiliates	514,062	149,214	130,422	30,243
Total assets	7,512,950	1,261,742	688,926	417,834
	Alternative Energy	Thermal	Other	Total
Operating Revenues and Equity Earnings				
Revenues from majority-owned operations	\$ 106,669	\$ 111,809	\$ 4,787	\$ 2,212,153
Equity in earnings of unconsolidated affiliates	(24,036)	—	812	68,996
Total operating revenues and equity earnings	82,633	111,809	5,599	2,281,149
Depreciation and amortization	23,719	10,611	7,644	256,199
Write down and losses on equity method				
investments	11,262	—	2,082	196,192
Special charges	56,220	31	448,267	2,656,093
Operating Income	(86,900)	26,688	(587,039)	(2,588,016)
Other income (expense), net	1,417	(193)	(7,294)	4,170
Interest expense	(4,655)	(7,827)	(200,984)	(493,956)
Income before income taxes	(84,089)	18,668	(795,317)	(3,073,043)
Income tax expense	(18,855)	7,194	(185,278)	(165,382)
Net Income (Loss) from continuing operations	(65,234)	11,474	(610,039)	(2,907,661)
Net Income (Loss) from discontinued				
operations	—	—	—	(556,621)
Net Income (Loss)	(65,234)	11,474	(610,039)	(3,464,282)
Balance Sheet				
Equity investments in affiliates	28,673	—	31,649	884,263
Total assets	194,958	283,438	523,840	10,883,688

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Power Generation			
	North America	Europe	Asia Pacific	Other Americas
	(Thousands of dollars)			
2001				
Operating Revenues and Equity Earnings				
Revenues from majority-owned operations	\$ 1,679,560	\$ 72,540	\$ 214,817	\$ 28,227
Equity in earnings of unconsolidated affiliates	181,335	41,688	13,227	3,886
Total operating revenues and equity earnings	1,860,895	114,228	228,044	32,113
Depreciation and amortization	115,467	216	14,703	5,235
Operating Income (Loss)	625,467	47,909	22,735	10,812
Other income (expense), net	6,827	3,730	1,637	2,010
Interest expense	(164,311)	(1,199)	(7,177)	(2,952)
Income before income taxes	466,181	50,441	17,195	9,824
Income tax expense	73,382	7,956	5,566	3,244
Net Income (Loss) from continuing operations	392,799	42,485	11,629	6,580
Net Income (Loss) from discontinued operations	15,150	39,763	(843)	647
Net Income (Loss)	407,949	82,248	10,786	7,227
Balance Sheet				
Equity investments in affiliates	554,846	119,148	263,236	35,081
Total assets	8,481,940	1,870,370	826,297	502,480
	Alternative Energy	Thermal	Other	Total
Operating Revenues and Equity Earnings				
Revenues from majority-owned operations	\$ 79,488	\$ 108,319	\$ 18,476	\$ 2,201,427
Equity in earnings of unconsolidated affiliates	(26,637)	—	(3,467)	210,032
Total operating revenues and equity earnings	52,851	108,319	15,009	2,411,459
Depreciation and amortization	19,511	11,224	3,240	169,596
Operating Income (Loss)	(25,686)	18,665	(81,946)	617,956
Other income (expense), net	2,913	69	2,688	19,874
Interest expense	(2,875)	(5,555)	(205,242)	(389,311)
Income before income taxes	(26,056)	13,179	(284,500)	246,264
Income tax expense	(58,405)	5,436	(9,127)	28,052
Net Income (Loss) from continuing operations	32,349	7,743	(275,373)	218,212
Net Income (Loss) from discontinued operations	—	—	(7,725)	46,992
Net Income (Loss)	32,349	7,743	(283,098)	265,204
Balance Sheet				
Equity investments in affiliates	34,969	—	30,915	1,038,195
Total assets	327,180	283,440	621,890	12,913,597

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Power Generation			
	North America	Europe	Asia Pacific	Other Americas
	(Thousands of dollars)			
2000				
Operating Revenues and Equity Earnings				
Revenues from majority-owned operations	\$1,448,305	\$ 1,337	\$94,772	\$ 291
Equity in earnings of unconsolidated affiliates	122,900	9,698	3,831	4,729
Total operating revenues and equity earnings	1,571,205	11,035	98,603	5,020
Depreciation and amortization	71,797	58	5,913	—
Operating Income	560,095	7,126	13,672	4,970
Other income (expense), net	4,715	(1,477)	1,602	1
Interest expense	(124,125)	(884)	(3,393)	66
Income before income taxes	439,845	4,765	11,881	5,037
Income tax expense	65,341	4,617	(4,066)	40
Net Income (Loss) from continuing operations	374,504	148	15,947	4,997
Net Income (Loss) from discontinued operations	31,173	17,515	—	—
Net Income (Loss)	405,677	17,663	15,947	4,997
	Alternative Energy	Thermal	Other	Total
Operating Revenues and Equity Earnings				
Revenues from majority-owned operations	34,386	84,901	6,782	1,670,774
Equity in earnings of unconsolidated affiliates	(19,637)	—	17,843	139,364
Total operating revenues and equity earnings	14,749	84,901	24,625	1,810,138
Depreciation and amortization	7,323	10,055	2,158	97,304
Operating Income (Loss)	(33,565)	16,702	(85,336)	483,664
Other income (expense), net	1,440	440	(923)	5,798
Interest expense	(3,257)	(6,288)	(112,909)	(250,790)
Income before income taxes	(35,382)	10,854	(199,168)	237,832
Income tax expense	(47,624)	4,379	64,216	86,903
Net Income (Loss) from continuing operations	12,242	6,475	(263,384)	150,929
Net Income (Loss) from discontinued operations	—	—	(16,682)	32,006
Net Income (Loss)	12,242	6,475	(280,066)	182,935

Note 24 — Jointly Owned Plants

On March 31, 2000, NRG Energy acquired a 58% interest in the Big Cajun II, Unit 3 generation plant. Entergy Gulf States owns the remaining 42%. Big Cajun II, Unit 3 is operated and maintained by Louisiana Generating pursuant to a joint ownership participation and operating agreement. Under this agreement, Louisiana Generating and Entergy Gulf States are each entitled to their ownership percentage of the hourly net electrical output of Big Cajun II, Unit 3. All fixed costs are shared in proportion to the ownership interests. Fixed costs include the cost of operating common facilities. All variable costs are incurred in proportion to the energy delivered to the owners. NRG Energy's income statement includes its share of all fixed and variable costs of operating the unit. NRG Energy's 58% share of the original cost included in Property, Plant and Equipment and construction in progress at December 31, 2002 and 2001, was \$189.0 million and \$179.7 mil-

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

lion, respectively. The corresponding accumulated depreciation and amortization at December 31, 2002 and 2001, was \$12.3 million and \$7.8 million, respectively.

In August 2001, NRG Energy completed the acquisition of a 77% interest in the 520 MW gas fired electric generating facility located in McClain County, Oklahoma from Duke Energy North America LLC (McClain generating facility). The remaining 23% of the McClain generating facility is owned and operated by the Oklahoma Municipal Power Authority (OMPA) pursuant to a joint ownership and operating agreement. Under this agreement, NRG McClain LLC operates the facility and NRG Energy and OMPA are entitled to their ownership ratio of the net available output of the McClain facility. All fixed costs are shared in proportion to the ownership interests. All variable costs are incurred in proportion to the energy delivered to the owners. NRG Energy's income statement includes its share of all fixed and variable costs of operating the facilities. NRG Energy's 77% share of the original cost included in Property, Plant and Equipment and construction in progress at December 31, 2002 and 2001 was \$277.6 million and \$277.3 million, respectively. The corresponding accumulated depreciation and amortization at December 31, 2002 and 2001, was \$12.3 million and \$3.1 million, respectively.

In June 2001, NRG Energy completed the acquisition of an approximately 3.7% interest in both the Keystone and Conemaugh coal-fired generating facilities. The Keystone and Conemaugh facilities are located near Pittsburgh, Pennsylvania and are jointly owned by a consortium of energy companies. NRG Energy purchased its interests from Conectiv, Inc. Keystone and Conemaugh are operated by GPU Generation, Inc. which sold its assets and operating responsibilities to Sithe Energies. Keystone and Conemaugh both consist of two operational coal-fired steam power units with a combined net output of 1,700 MW, four diesel units with a combined net output of 11 MW and an on-site landfill. The units are operated pursuant to a joint ownership participation and operating agreement. Under this agreement each joint owner is entitled to its ownership ratio of the net available output of the facility. All fixed costs are shared in proportion to the ownership interests. All variable costs are incurred in proportion to the energy delivered to the owners. NRG Energy's income statement includes its share of all fixed and variable costs of operating the facilities. NRG Energy's 3.70% and 3.72% share of the Keystone and Conemaugh facilities original cost included in Property, Plant and Equipment and construction in progress at December 31, 2002 was \$57.9 million and \$62.8 million, respectively and for December 31, 2001 \$52.9 million and \$60.9 million, respectively. The corresponding accumulated depreciation and amortization at December 31, 2002 and 2001, for Keystone and Conemaugh was \$3.5 million and \$4.1 million, respectively, and for December 31, 2001 \$1.3 million and \$1.5 million, respectively.

Note 25 — Decommissioning Funds

NRG Energy is required by the State of Louisiana Department of Environmental Quality ("DEQ") to rehabilitate NRG Energy's Big Cajun II ash and wastewater impoundment areas, subsequent to the Big Cajun II facilities' removal from service. On July 1, 1989, a guarantor trust fund (the "Solid Waste Disposal Trust Fund") was established to accumulate the estimated funds necessary for such purpose. Approximately \$1.1 million was initially deposited in the Solid Waste Disposal Trust Fund in 1989, and \$116,000 has been funded annually thereafter, based upon an estimated future rehabilitation cost (in 1989 dollars) of approximately \$3.5 million and the remaining estimated useful life of the Big Cajun II facilities. Cumulative contributions to the Solid Waste Disposal Trust Fund and earnings on the investments therein are accrued as a decommissioning liability. At December 31, 2002 and 2001, the carrying value of the trust fund investments and the related accrued decommissioning liability was approximately \$4.6 million and \$4.3 million, respectively. The trust fund investments are comprised of various debt securities of the United States and are carried at amortized cost, which approximates their fair value.

NRG ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 26 — Accounting for Derivative Instruments and Hedging Activities

Derivative Instruments and Hedging Activity

On January 1, 2001, NRG Energy adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 requires NRG Energy to record all derivatives on the balance sheet at fair value. Changes in the fair value of non-hedge derivatives will be immediately recognized in earnings. Changes in fair values of derivatives accounted for as hedges will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other accumulated comprehensive income (OCI) until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative instrument's change in fair value will be immediately recognized in earnings. NRG Energy also formally assesses both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in either the fair value or cash flows of the hedged item. This assessment includes all components of each derivative's gain or loss unless otherwise noted. When it is determined that a derivative ceases to be a highly effective hedge, hedge accounting is discontinued.

SFAS No. 133 applies to NRG Energy's long-term power sales contracts, long-term gas purchase contracts and other energy related commodities financial instruments used to mitigate variability in earnings due to fluctuations in spot market prices, hedge fuel requirements at generation facilities and protect investments in fuel inventories. SFAS No. 133 also applies to various interest rate swaps used to mitigate the risks associated with movements in interest rates and foreign exchange contracts to reduce the effect of fluctuating foreign currencies on foreign denominated investments and other transactions. At December 31, 2002, NRG Energy had various commodity contracts extending through December 2003, and several fixed-price gas and electricity purchase contracts extending through 2018.

Accumulated Other Comprehensive Income

The following table summarizes the effects of SFAS No. 133 on NRG Energy's Other Comprehensive Income balance as of December 31, 2002:

	Energy Commodities	Interest Rate	Foreign Currency	Total
	(Gains/(Losses) in \$ thousands)			
Accum. OCI balance at December 31, 2001	\$134,868	\$(61,404)	\$(2,363)	\$ 71,101
Unwound from OCI during period:				
- due to forecasted transactions probable of no longer occurring	—	18,784	—	18,784
- due to unwinding of previously deferred amounts	(96,617)	10,007	2,075	(84,535)
Mark to market of hedge contracts	59,473	(38,572)	27	20,928
Accum. OCI balance at December 31, 2002	\$ 97,724	\$ (71,185)	\$ (261)	\$ 26,278
Gains/(Losses) expected to unwind from OCI during next 12 months	\$ (8,916)	\$ 9,861	\$ 261	\$ 1,206

During the year ended December 31, 2002, NRG Energy reclassified losses of \$18.8 million from OCI to current-period earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period. Additionally, gains of \$84.5 million were reclassified from OCI to current period earnings during the year ended December 31, 2002 due to the unwinding of previously deferred amounts. These amounts are recorded on the

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

same line in the statement of operations in which the hedged items are recorded. Also during the year ended December 31, 2002, NRG Energy recorded a gain in OCI of approximately \$20.9 million related to changes in the fair values of derivatives accounted for as hedges. The net balance in OCI relating to SFAS No. 133 as of December 31, 2002 was an unrecognized gain of approximately \$26.3 million. NRG Energy expects \$1.2 million of deferred net losses on derivative instruments accumulated in OCI to be recognized in earnings during the next twelve months.

The following table summarizes the effects of SFAS No. 133 on NRG Energy's Other Comprehensive Income balance as of December 31, 2001:

	Energy Commodities	Interest Rate	Foreign Currency	Total
	(Gains/(Losses) in \$ thousands)			
Accum. OCI balance at December 31, 2000	\$ —	\$ —	\$ —	\$ —
Initial adoption of SFAS No. 133	(6,567)	(16,064)	—	(22,631)
Unwound from OCI during period:				
- due to unwinding of previously deferred amounts	(25,789)	662	(167)	(25,294)
Mark to market of hedge contracts	167,224	(46,002)	(2,196)	119,026
Accum. OCI balance at December 31, 2001	\$134,868	\$(61,404)	\$(2,363)	\$ 71,101

The adoption of SFAS No. 133 on January 1, 2001, resulted in an after-tax unrealized loss of \$22.6 million recorded to OCI related to previously deferred net losses on derivatives designated as cash flow hedges. During the year ended December 31, 2001, NRG Energy reclassified gains of \$25.3 million from OCI to current-period earnings. This amount is recorded on the same line in the statement of operations in which the hedged item is recorded. Also during the year ended December 31, 2001, NRG Energy recorded an after-tax gain in OCI of approximately \$119.0 million related to changes in the fair values of derivatives accounted for as hedges. The net balance in OCI relating to SFAS No. 133 as of December 31, 2001 was an unrecognized gain of approximately \$71.1 million.

Statement of Operations

The following tables summarize the effects of SFAS No. 133 on NRG Energy's statement of operations for the period ended December 31, 2002:

	Energy Commodities	Interest Rate	Foreign Currency	Total
	(Gains/(Losses) in \$ thousands)			
Revenue from majority owned subsidiaries	\$ 9,085	\$ —	\$ —	\$ 9,085
Equity in earnings of unconsolidated subsidiaries	1,426	970	—	2,396
Cost of operations	9,530	—	—	9,530
Other income	—	—	344	344
Interest expense	—	(32,953)	—	(32,953)
Total Statement of Operations impact before tax	\$ 20,041	\$(31,983)	\$ 344	\$ (11,598)

NRG ENERGY, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following tables summarize the effects of SFAS No. 133 on NRG Energy's statement of operations for the period ended December 31, 2001:

	Energy Commodities	Foreign Currency	Total
	(Gains/(Losses) in \$ thousands)		
Revenue from majority owned subsidiaries	\$ (8,138)	\$ —	\$ (8,138)
Equity in earnings of unconsolidated subsidiaries	4,662	—	4,662
Cost of operations	17,556	—	17,556
Other income	—	252	252
Total Statement of Operations impact before tax	\$ 14,080	\$ 252	\$14,332

Energy related commodities

NRG Energy is exposed to commodity price variability in electricity, emission allowances and natural gas, oil and coal used to meet fuel requirements. In order to manage these commodity price risks, NRG Energy enters into financial instruments, which may take the form of fixed price, floating price or indexed sales or purchases, and options, such as puts, calls, basis transactions and swaps. Certain of these transactions have been designated as cash flow hedges. NRG Energy has accounted for these derivatives by recording the effective portion of the cumulative gain or loss on the derivative instrument as a component of OCI in shareholders' equity. NRG Energy recognizes deferred gains and losses into earnings in the same period or periods during which the hedged transaction affects earnings. Such reclassifications are included on the same line of the statement of operations in which the hedged item is recorded.

No ineffectiveness was recognized on commodity cash flow hedges during the periods ended December 31, 2002 and 2001.

NRG Energy's pre-tax earnings for the years ended December 31, 2002 and 2001 were increased by an unrealized gain of \$20.0 million and \$14.1 million, respectively, associated with changes in the fair value of energy related derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

During the years ended December 31, 2002 and 2001, NRG Energy reclassified gains of \$96.6 million and \$25.8 million, respectively, from OCI to current-period earnings and expects to reclassify an additional \$8.9 million of deferred gains to earnings during the next twelve months on energy related derivative instruments accounted for as hedges.

Interest Rates

To manage interest rate risk, NRG Energy has entered into interest-rate swaps that effectively fix the interest payments of certain floating rate debt instruments. Interest-rate swap agreements are accounted for as cash flow hedges. The effective portion of the cumulative gain or loss on the derivative instrument is reported as a component of OCI in shareholders' equity and recognized into earnings as the underlying interest expense is incurred. Such reclassifications are included on the same line of the statement of operations in which the hedged item is recorded.

No ineffectiveness was recognized on interest rate cash flow hedges during the periods ended December 31, 2002 and 2001.

NRG Energy's pre-tax earnings for the years ended December 31, 2002 and 2001 were increased by an unrealized loss of \$32.0 million and \$0, respectively, associated with changes in the fair value of interest rate derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the years ended December 31, 2002 and 2001, NRG Energy reclassified losses of \$28.8 million and \$0.7 million, respectively, from OCI to current-period earnings and expects to reclassify \$9.9 million of deferred losses to earnings during the next twelve months on interest rate swaps accounted for as hedges.

Foreign Currency Exchange Rates

To preserve the U.S. dollar value of projected foreign currency cash flows, NRG Energy may hedge, or protect those cash flows if appropriate foreign hedging instruments are available.

No ineffectiveness was recognized on foreign currency cash flow hedges during the periods ended December 31, 2002 and 2001.

NRG Energy's pre-tax earnings for each of the years ended December 31, 2002 and 2001 were increased by an unrealized gain of \$0.3 million associated with foreign currency hedging instruments not accounted for as hedges in accordance with SFAS No. 133.

During the years ended December 31, 2002 and 2001, NRG Energy reclassified losses of \$2.1 million and gains of \$0.2 million, respectively, from OCI to current period earnings and expects to reclassify \$0.3 million of deferred losses to earnings during the next twelve months on foreign currency swaps accounted for as hedges.

Note 27 — Unaudited Quarterly Financial Data

Subsequent to the issuance of NRG Energy's financial statements for the quarter ended September 30, 2002, NRG Energy's management determined that the accounting for certain transactions required restatement.

NRG Energy determined that it had misapplied the provisions of SFAS No. 144 related to asset groupings in connection with the review for impairment of its long-lived assets during the quarter ended September 30, 2002. SFAS No. 144 requires that for purposes of testing recoverability, assets be grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. NRG Energy recalculated the asset impairment tests in accordance with SFAS No. 144 using the appropriate asset groupings for independent cash flows for each generation facility. As a result, NRG Energy concluded that asset impairments should have been recorded for two projects known as Bayou Cove Peaking Power LLC and Somerset Power LLC. Since NRG Energy concluded that the triggering events that led to the impairment charge were experienced in the third quarter of 2002, the asset impairments related to these projects should have been recorded as of September 30, 2002. NRG Energy calculated the asset impairment charges for Bayou Cove Peaking Power LLC and Somerset Power LLC to be \$126.5 million and \$49.3 million, respectively.

In connection with NRG Energy's year-end audit, two additional items were found to be inappropriately recorded as of September 30, 2002. These items included the inappropriate treatment of interest rate swap transactions as cash flow hedges and the decrease in the value of a bond remarketing option from the original price paid by NRG Energy. The error correction for the interest rate swaps resulted in the recording of additional income of \$61.6 million as of September 30, 2002. The recognition of the decrease in the value of the remarketing option resulted in a charge to income of \$15.9 million as of September 30, 2002.

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the significant effects of the restatement on our consolidated statements of operations for the three and nine months ended September 30, 2002 is as follows:

(In thousands)	Previously Reported		As Restated	
	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
Consolidated Statements of Operations:				
Revenue and equity earnings	\$ 692,614	\$ 1,758,092	\$ 692,614	\$ 1,758,092
Operating income	(2,329,131)	(2,242,516)	(2,520,824)	(2,434,209)
Net loss from continuing operations	(2,348,312)	(2,427,388)	(2,478,392)	(2,557,468)
Net loss from discontinued operations	(577,002)	(565,741)	(577,002)	(565,741)
Net loss	(2,925,314)	(2,993,129)	(3,055,394)	(3,123,209)

During the fourth quarter of 2002, NRG Energy determined that it had inadvertently offset its investment in Jackson County, MS, bonds in the amount of \$155.5 million against long-term debt of the same amount owed to the County. This resulted in an understatement of the Company's assets by \$155.5 million and liabilities by \$155.5 million as of September 30, 2002. In addition, the restatement for Bayou Cove Peaking LLC and Somerset Power LLC impairments reduced the previously reported net property, plant and equipment balance by \$175.8 million. The restatement for the interest rate swaps had no impact on total shareholder's equity and the restatement for the remarketing option reduced other assets by \$15.9 million.

A summary of the significant effects of the restatement on our consolidated balance sheet as of September 30, 2002 is as follows:

(In thousands)	As of September 30, 2002	
	Previously Reported	As Restated
Consolidated Balance Sheet:		
Property, Plant and Equipment		
In service	\$ 7,162,125	\$ 6,981,156
Under construction	595,218	593,505
Total property, plant and equipment	7,757,343	7,574,661
Less accumulated depreciation	(584,992)	(578,127)
Net property, plant and equipment	7,172,351	6,996,534
Notes receivable, less current portion	606,527	762,004
Other assets, net	55,383	39,507
Long term debt	1,659,396	1,814,873
Retained deficit	(2,357,780)	(2,487,860)
Accumulated other comprehensive loss	(4,879)	(66,492)

NRG ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized quarterly unaudited financial data is as follows:

Quarter Ended 2002					
	Mar 31	June 30	(Thousands of dollars) Sept 30	Dec 31	Total Year
Revenue and equity earnings	\$482,769	\$582,709	\$ 692,614	\$ 523,057	\$ 2,281,149
Operating income/(loss)	39,360	47,255	(2,520,824)	(153,807)	(2,588,016)
Net loss from continuing operations	(36,038)	(43,038)	(2,478,392)	(350,193)	(2,907,661)
Net income/(loss) from discontinued operations	9,575	1,686	(577,002)	9,120	(556,621)
Net loss	(26,463)	(41,352)	(3,055,394)	(341,073)	(3,464,282)
Quarter Ended 2001					
	Mar 31	June 30	Sept 30	Dec 31	Total Year
Revenue and equity earnings	\$504,028	\$ 605,125	\$810,362	\$491,944	\$2,411,459
Operating income	95,815	136,441	286,875	98,825	617,956
Net income from continuing operations	17,842	43,911	133,500	22,959	218,212
Net income from discontinued operations	17,336	5,203	8,080	16,373	46,992
Net income	35,178	49,114	141,580	39,332	265,204

During the fourth quarter of the year ended December 31, 2002, NRG Energy recorded \$100.3 million of special charges including additional asset impairments and other restructuring costs. In addition, NRG Energy recorded \$74.2 million of write downs and losses on sale of equity investments.

Note 28 — Subsequent Event

Brazos Valley — In January 2003, the project lenders foreclosed on NRG Energy's ownership interests in NRG Brazos Valley GP, LLC, NRG Brazos Valley LP, LLC, NRG Brazos Valley Technology LP, LLC and NRG Brazos Valley Energy, LP, and the lenders thereby acquired all of the assets of the Brazos Valley project, a 633 MW project under construction near Houston, TX. NRG Energy agreed to the consensual foreclosure of the companies. NRG Energy received no cash proceeds upon completion of the foreclosure. As of December 31, 2002, NRG Energy recorded \$24.0 million for the potential obligation to infuse additional amounts of capital to fund a debt service reserve account and the potential obligation to satisfy a contingent equity agreement.

**REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors

and Stockholder of NRG Energy, Inc.:

Our audits of the consolidated financial statements referred to in our report dated March 28, 2003 appearing in this Annual Report on Form 10-K also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Annual Report on Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota

March 28, 2003

NRG ENERGY, INC.

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2002, 2001 and 2000

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
(In thousands)					
Allowance for doubtful accounts, deducted from accounts receivable in the balance sheet:					
2002	\$ 13,634	\$53,896	—	—	\$67,530
2001	21,199	—	—	(7,565)	13,634
2000	186	25,885	—	(4,872)	21,199
(In Thousands)					
Income tax valuation allowance, deducted from deferred tax assets in the balance sheet:					
December 31, 2002	\$ 66,622	\$1,010,425	—	—	\$1,077,047
December 31, 2001	40,649	25,973	—	—	66,622
December 31, 2000	15,006	25,643	—	—	40,649

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 31, 2002.

NRG ENERGY, INC.

/s/ GEORGE P. SCHAEFER

George P. Schaefer
Its Vice President and Treasurer

POWER OF ATTORNEY:

Each person whose signature appears below constitutes and appoints Richard C. Kelly, each or any of them, such person's true and lawful attorney-in-fact and agent with full power of substitution and resubstitution for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as such person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on March 31, 2003.

Signature	Title
/s/ WAYNE H. BRUNETTI	Director, Chairman and CEO
Wayne H. Brunetti	
/s/ RICHARD C. KELLY	Director, President and COO
Richard C. Kelly	
/s/ GARY R. JOHNSON	Director
Gary R. Johnson	
/s/ WILLIAM T. PIEPER	VP and Controller
William T. Pieper	
/s/ GEORGE P. SCHAEFER	VP and Treasurer
George P. Schaefer	

CERTIFICATIONS

I, Wayne H. Brunetti, certify that:

1. I have reviewed this annual report on Form 10-K of NRG Energy, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ WAYNE H. BRUNETTI

Wayne H. Brunetti
Chairman and Chief Executive Officer

Date: March 31, 2003

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I, George P. Schaefer, certify that:

1. I have reviewed this annual report on Form 10-K of NRG Energy, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ GEORGE P. SCHAEFER

George P. Schaefer
Vice President and Treasurer

Date: March 31, 2003

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I, William T. Pieper, certify that:

1. I have reviewed this annual report on Form 10-K of NRG Energy, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ WILLIAM T. PIEPER

William T. Pieper
Vice President and Controller

Date: March 31, 2003

EXHIBIT INDEX

- 3.1 Amended and Restated Certificate of Incorporation.(15)
 - 3.2 By-Laws.(15)
 - 4.1 Indenture, dated as of January 31, 1996, between NRG Energy, Norwest Bank Minnesota, National Association, As Trustee and Wilmington Trust Company, as Successor Trustee.(1)
 - 4.2 Indenture, dated as of June 1, 1997, between NRG Energy, Norwest Bank Minnesota, National Association and Wilmington Trust Company, as Successor Trustee.(1)
 - 4.3 Form of Exchange Notes.(1)
 - 4.4 Indenture, dated as of May 25, 1999, between NRG Energy, Norwest Bank Minnesota, National Association, as Trustee and Wilmington Trust Company, as Successor Trustee.(4)
 - 4.5 Indenture, dated as of November 8, 1999, between NRG Energy, Norwest Bank Minnesota, National Association as Trustee and Wilmington Trust Company, as Successor Trustee.(7)
 - 4.6 Indenture, dated as of February 22, 2000, between NRG Energy, NRG Northeast Generating LLC and Chase Manhattan Bank, as Trustee.(8)
 - 4.7 NRG Energy Pass-Through Trust 2000-1, \$250,000,000 8.70% Remarketable or Redeemable Securities (“ROARS”) due March 15, 2005.(8)
 - 4.8 Trust Agreement, dated March 20, 2000, between NRG Energy, The Bank of New York, as Trustee and Wilmington Trust Company, as Successor Trustee.(8)
 - 4.9 Indenture, dated March 20, 2000, between NRG Energy, The Bank of New York, as Trustee, and Wilmington Trust Company, as Successor Trustee, 160,000,000 pounds sterling Reset Senior Notes due March 15, 2020.(8)
 - 4.11 Indenture, dated September 11, 2000, between NRG Energy, Wells Fargo Bank Minnesota, National Association, as Trustee and Wilmington Trust Company, as Successor Trustee.(10)
 - 4.12 Form of Supplemental Indenture to be used in connection with the issuance of Debentures.(11)
 - 4.13 Form of Indenture.(11)
 - 4.14 Form of Purchase Contract Agreement between NRG Energy and the Purchase Contract Agent to be named therein.(11)
 - 4.15 Form of Corporate Unit Certificate.(11)
 - 4.16 Form of Pledge Agreement among NRG Energy, the Collateral Agent and the Unit Agent, each to be named therein.(11)
 - 4.17 Form of Remarketing Agreement among NRG Energy, the Purchase Contract Agent and the Remarketing Agent, each to be named therein.(11)
 - 4.18 Indenture, dated March 13, 2001, between NRG Energy, The Bank of New York, a New York banking corporation, as Trustee and Wilmington Trust Company, as Successor Trustee.(12)
 - 4.19 First Supplement Indenture, dated March 13, 2001, between NRG Energy, The Bank of New York, a New York banking corporation, as Trustee and Wilmington Trust Company, as Successor Trustee.(12)
 - 4.20 364-Day Revolving Credit Agreement dated as of March 8, 2002, among NRG Energy, Inc., The Financial Institutions Party hereto and ABN AMRO Bank N.V., as agent.
 - 4.21 \$2.0 billion credit agreement dated May 8, 2001 among NRG Finance Company LLC and certain financial institutions named therein.(14)
 - 4.22 \$600 million credit agreement among NRG Energy and certain financial institutions named therein.(14)
 - 4.23 Indenture dated June 18, 2002, between NRG Peaker Finance Company LLC, as Issuer, Bayou Cove Peaking Power LLC, big Cajun I Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC and Sterlington Power LLC, as Guarantors, XL Capital Assurance Inc., as Insurer, and Law Debenture Trust Company, as Successor Trustee to the Bank of New York.(15)
 - 4.24 Common Agreement among XL Capital Assurance Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P., the Bank of New York, as Trustee and Collateral Agent, NRG Peaker Finance Company LLC and each Project Company Party thereto dated as of June 18, 2002, together with Annex A to the Common Agreement.(15)
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4.25	Contingent Guaranty Agreement in favor of the Bank of New York, dated June 18, 2002.(15)
10.1*	Employment Contract, dated as of June 28, 1995, between NRG Energy and David H. Peterson.(1)
10.2	Note Agreement, dated August 20, 1993, between NRG Energy, Energy Center, Inc. and each of the purchasers named therein.(1)
10.3	Master Shelf and Revolving Credit Agreement, dated August 20, 1993, between NRG Energy, Energy Center, Inc., The Prudential Insurance Registrants of America and each Prudential Affiliate, which becomes party thereto.(1)
10.4	Energy Agreement, dated February 12, 1988, between NRG Energy (formerly known as Norenco Corporation) and Waldorf Corporation (the "Energy Agreement").(1)
10.5	First Amendment to the Energy Agreement, dated August 27, 1993.(1)
10.6	Second Amendment to the Energy Agreement, dated January 31, 1996.(1)
10.7	Third Amendment to the Energy Agreement, dated August 25, 1997.(1)
10.8	Construction, Acquisition and Term Loan Agreement, dated September 2, 1997, between 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.(1)
10.9	Guaranty, dated September 12, 1997, by NRG Energy in favor of Credit Lyonnais New York Branch, as agent for the Construction/ Acquisition Lenders.(1)
10.10	Construction, Acquisition and Term Loan Agreement, dated September 2, 1997, between 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.(1)
10.11	Guaranty, dated September 12, 1997, by NRG Energy in favor of Credit Lyonnais New York Branch, as agent for the Construction/ Acquisition Lenders.(1)
10.12	Non Operating Interest Acquisition Agreement dated as of September 12, 1997, between NRG Energy and NEO Corporation.(1)
10.14	Wholesale Standard Offer Service Agreement, dated October 13, 1998, between Blackstone Valley Electric Company, Eastern Edison Company, Newport Electric Corporation and NRG Power Marketing, Inc.(5)
10.15	Asset Sales Agreement, dated December 23, 1998, between NRG Energy and Niagara Mohawk Power Corporation.(5)
10.16	First Amendment to Wholesale Standard Offer Service Agreement, dated January 15, 1999, between Blackstone Valley Electric Company, Eastern Edison Company, Newport Electric Corporation and NRG Power Marketing, Inc.(5)
10.17	Generating Plant and Gas Turbine Asset Purchase and Sale Agreement for the Arthur Kill generating plants and Astoria gas turbines, dated January 27, 1999, between NRG Energy and Consolidated Edison Company of New York, Inc.(5)
10.18	Transition Energy Sales Agreement, dated June 1, 1999, between Arthur Kill Power LLC and Consolidated Edison Company of New York, Inc.(5)
10.19	Transition Power Purchase Agreement, dated June 1, 1999, between Astoria Gas Turbine Power LLC and Consolidated Edison Company of New York, Inc.(5)
10.20	Transition Power Purchase Agreement, dated June 11, 1999, between Niagara Mohawk Power Corporation and Huntley Power LLC.(5)
10.21	Transition Power Purchase Agreement, dated June 11, 1999, between Niagara Mohawk Power Corporation and Dunkirk Power LLC.(5)
10.22	Power Purchase Agreement, dated June 11, 1999, between Niagara Mohawk Power Corporation and Dunkirk Power LLC.(5)
10.23	Power Purchase Agreement, dated June 11, 1999, between Niagara Mohawk Power Corporation and Huntley Power LLC.(5)
10.24	Amendment to the Asset Sales Agreement, dated June 11, 1999, between NRG Energy and Niagara Mohawk Power Corporation.(5)

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10.25	Transition Capacity Agreement, dated June 25, 1999, between Astoria Gas Turbine Power LLC and Consolidated Edison Company of New York, Inc.(5)
10.26	Transition Capacity Agreement, dated June 25, 1999, between Arthur Kill Power LLC and Consolidated Edison Company of New York, Inc.(5)
10.27*	First Amendment to the Employment Agreement of David H. Peterson, dated June 27, 1999.(6)
10.28*	Second Amendment to the Employment Agreement of David H. Peterson, dated August 26, 1999.(6)
10.29*	Third Amendment to the Employment Agreement of David H. Peterson, dated October 20, 1999.(6)
10.30	Swap Master Agreement, dated June 11, 1999, between Niagara Mohawk Power Corporation and NRG Power Marketing, Inc.(6)
10.31	Standard Offer Service Wholesale Sales Agreement, dated October 29, 1999, between the Connecticut Light And Power Company and NRG Power Marketing, Inc.(6)
10.32	Amended Agreement for the Sale of Thermal Energy, dated January 1, 1983, between NRG Energy (formerly known as Norencor Corporation) and Northern States Power and Norencor Corporation.(9)
10.33	Operations and Maintenance Agreement, dated November 1, 1996, between NRG Energy and Northern States Power.(9)
10.34	Agreement for the Sale of Thermal Energy and Wood Byproduct, dated December 1, 1986, between Northern States Power and Norencor Corporation.(9)
10.35	Federal and State Income Tax Sharing Agreement, dated April 4, 1991, between Northern States Power Company and NRG Group, Inc.(9)
10.36	Support Agreement, dated March 27, 2000, between Northern States Power Company and CitiCorp USA Inc.(9)
10.37	Administrative Services Agreement, dated January 1, 1992, between Northern States Power Company and NRG Thermal Corporation.(9)
10.38	Form of Option Agreement with Northern States Power Company.(9)
10.39	Form of Registration Rights Agreement with Northern States Power Company.(9)
10.40	Form of Indemnification Agreement.(9)
10.41*	Form of Severance Agreement entered into between NRG Energy and each of the following executive officers; James Bender, Leonard Bluhm, Craig Mataczynski, and John Noer.(14)
10.42*	Key Executive Retention, Restructuring Bonus and Severance Agreement of Scott J. Davido.(15)
10.43*	Severance Agreement of Ershel Redd.(15)
10.44*	NRG Executive Officer and Key Personnel Severance Plan of William Pieper.(15)
10.45*	Severance Agreement of George Schaefer.(15)
21	Subsidiaries of NRG Energy.(15)
23.1	Consent of PricewaterhouseCoopers LLP.(15)
99.1	Officer Certification.(15)
99.2	Financial Statements of "West Coast Power."(16)

* Exhibit relates to compensation arrangements.

- (1) Incorporated herein by reference to NRG Energy's Registration Statement on Form S-1, as amended, Registration No. 333-33397.
 - (2) Incorporated herein by reference to NRG Energy's annual report on Form 10-K for the year ended December 31, 1997.
 - (3) Incorporated herein by reference to NRG Energy's quarterly report on Form 10-Q for the quarter ended March 31, 1998.
 - (4) Incorporated herein by reference to NRG Energy's current report on Form 8-K filed on May 27, 1999.
 - (5) Incorporated herein by reference to NRG Energy's quarterly report on Form 10-Q for the quarter ended June 30, 1999.
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- (6) Incorporated herein by reference to NRG Energy's quarterly report on Form 10-Q for the quarter ended September 31, 1999.
- (7) Incorporated herein by reference to NRG Energy's current report on Form 8-K filed on November 16, 1999.
- (8) Incorporated herein by reference to NRG Energy's annual report on Form 10-K for the year ended December 31, 1999.
- (9) Incorporated herein by reference to NRG Energy's Registration Statement on Form S-1, as amended, Registration No. 333-35096.
- (10) Incorporated herein by reference to NRG Energy's current report on Form 8-K filed on September 13, 2000.
- (11) Incorporated herein by reference to NRG Energy's Registration Statement on Form S-3, as amended, Registration No. 333-52508.
- (12) Incorporated herein by reference to NRG Energy's current report on Form 8-K filed on March 15, 2001.
- (13) Incorporated herein by reference to NRG Energy's quarterly report on Form 10-Q for the quarter ended March 31, 2001.
- (14) Incorporated herein by reference to NRG Energy's quarterly report on Form 10-Q for the quarter ended June 30, 2001.
- (15) Filed herein.
- (16) To be filed by amendment.

RESTATED CERTIFICATE OF INCORPORATION

OF

NRG ENERGY, INC.

ARTICLE FIRST

The name of the corporation (the "Corporation") is NRG Energy, Inc.

ARTICLE SECOND

The registered office and registered agent of the Corporation is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOURTH

A. The Corporation is authorized to issue three classes of stock to be designated, respectively, "Common Stock," "Class A Common Stock" and "Preferred Stock." The total number of shares of stock that the Corporation has authority to issue is 300, of which:

1. 100 shares shall be shares of Common Stock, par value \$0.01 per share (the "Common Stock");

2. 100 shares shall be shares of Class A Common Stock, par value \$0.01 per share (the "Class A Common Stock"); and

3. 100 shares shall be shares of Preferred Stock, par value \$0.01 per share (the "Preferred Stock").

The Common Stock and the Class A Common Stock are referred to collectively as the "Common Shares."

B. The powers, preferences and rights of the holders of Common Stock and Class A Common Stock, and the qualifications, limitations or restrictions thereof, shall be in all respects identical on the basis of the number of shares held, whether as to dividends or upon liquidation, dissolution or winding up of the affairs of the Corporation, or otherwise, except as otherwise required by law or expressly provided in this Certificate of Incorporation, as it may be amended, and subject to the powers, preferences and rights of the holders of Preferred Stock, as provided in

or as otherwise determined by the Board of Directors pursuant to Section C of this Article FOURTH.

1. Dividends.

(a) Dividends may be declared and paid to the holders of Common Stock and Class A Common Stock in cash, property, or other securities of the Corporation out of any funds legally available therefor. If and when

dividends on the Common Stock and the Class A Common Stock are declared payable from time to time by the Board of Directors, whether payable in cash, in property or in securities of the Corporation, the holders of the Common Stock and the Class A Common Stock shall be entitled to share equally on a per share basis in such dividends. If dividends are declared that are payable in shares of Common Stock, such dividends shall be payable at the same rate on both Common Stock and Class A Common Stock; provided that such dividends shall be payable in shares of Common Stock both to holders of Common Stock and to holders of Class A Common Stock.

(b) Subject to provisions of law and rights, powers and preferences of any series of Preferred Stock and of any other stock ranking prior to the Common Stock or the Class A Common Stock as to dividends, the holders of the Common Stock and the Class A Common Stock shall be entitled to receive dividends at such time and in such amounts as may be determined by the Board of Directors and declared out of any funds legally available therefor, and shares of Preferred Stock of any series shall not be entitled to share therein except as otherwise expressly provided in the resolution or resolutions of the Board of Directors providing for the issue of such series.

2. Distributions on Liquidation, Dissolution or Winding Up. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary (sometimes hereinafter referred to as "liquidation"), after payment or provision for payment of the debts and other liabilities of the Corporation and the preferential amounts to which the holders of any stock ranking prior to the Common Stock and the Class A Common Stock in the distribution of assets shall be entitled upon liquidation, the holders of the Common Stock and the Class A Common Stock and the holders of any other stock ranking on a parity with the Common Stock and the Class A Common Stock in the distribution of assets upon liquidation shall be entitled to share pro rata in the remaining assets of the Corporation according to their respective interests.

3. Voting.

(a) At each annual or special meeting of the stockholders, or, if the stockholders have the power to act by written consent, in any action taken by written consent in lieu thereof, each holder of Common Stock shall be entitled to one (1) vote in person or by proxy for each Common Stock share standing in such stockholder's name on the stock transfer records of the Corporation in connection with the election of directors and all other actions submitted to a vote of stockholders.

(b) At each annual or special meeting of the stockholders, or, if the stockholders have the power to act by written consent, in any action taken by written consent in

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lieu thereof, each holder of Class A Common Stock shall be entitled to ten (10) votes in person or by proxy for each Class A Common Stock share standing in such stockholder's name on the stock transfer records of the Corporation in connection with the election of directors and all other actions submitted to a vote of stockholders.

(c) Except as may be otherwise required by law or this Certificate of Incorporation, the holders of Common Stock and Class A Common Stock shall vote together as a single class.

4. Conversion of Class A Common Stock.

(a) Optional Conversion.

(i) Each share of Class A Common Stock may at any time be converted into one (1) fully paid and non-assessable share of Common Stock. Such right shall be exercised by the surrender of the certificate

representing such share of Class A Common Stock to be converted to the Corporation at any time during normal business hours at the principal executive offices of the Corporation, or if an agent for the registration of transfer of shares of Class A Common Stock is then duly appointed and acting (said agent being hereinafter called the "Transfer Agent") then at the office of the Transfer Agent, accompanied by a written notice of the election by the holder thereof to convert and (if so required by the Corporation or the Transfer Agent) by instruments of transfer, in form satisfactory to the Corporation and to the Transfer Agent, duly executed by such holder or his duly authorized attorney, and transfer tax stamps or funds therefor, if required pursuant to Section 4(a)(v) below.

(ii) As promptly as practicable after the surrender for conversion of a certificate representing shares of Class A Common Stock in the manner provided in Section 4(a)(i) above and the payment in cash of any amount required by the provisions of Sections 4(a)(i) and 4(a)(v), the Corporation will deliver or cause to be delivered at the office of the Transfer Agent to or upon the written order of the holder of such certificate, a certificate or certificates representing the number of full shares of Common Stock issuable upon such conversion, issued in such name or names as such holder may direct. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of the surrender of the certificate representing shares of Class A Common Stock, and all rights of the holder of such shares as such holder shall cease at such time and the person or persons in whose name or names the certificate or certificates representing the shares of Common Stock are to be issued shall be treated for all purposes as having become the record holder or holders of such shares of Common Stock at such time; provided, however, that any such surrender and payment on any date when the stock transfer books of the Corporation shall be closed shall constitute the person or persons in whose name or names the certificate or certificates representing shares of Common Stock are to be issued as the record holder or holders thereof for all purposes immediately prior to the close of business on the next succeeding day on which such stock transfer books are open.

(iii) No adjustments in respect of dividends shall be made upon the conversion of any share of Class A Common Stock; provided, however, that if a share shall be converted subsequent to the record date for the payment of a dividend or other distribution on

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shares of Class A Common Stock but prior to such payment, the registered holder of such share at the close of business on such record date shall be entitled to receive the dividend or other distribution payable on such share on such date notwithstanding the conversion thereof or the Corporation's default in payment of the dividend due on such date.

(iv) The Corporation covenants that it will at all times reserve and keep available, solely for the purpose of issuance upon conversion of the outstanding shares of Class A Common Stock, such number of shares of Common Stock as shall be issuable upon the conversion of all such outstanding shares, provided, that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of the conversion of the outstanding shares of Class A Common Stock by delivery of purchased shares of Common Stock which are held in the treasury of the Corporation. The Corporation covenants that if any shares of Common Stock, required to be reserved for purposes of conversion hereunder, require registration with or approval of any governmental authority under any federal or state law before such shares of Common Stock may be issued upon conversion, the Corporation will cause such shares to be duly registered or approved, as the case may be. The Corporation will endeavor to list the shares of Common Stock required to be delivered upon conversion prior to such delivery upon each national securities exchange upon which the outstanding Common Stock is listed at the time of such delivery. The Corporation covenants that all shares of Common Stock which shall be issued upon conversion of the shares of Class A

Common Stock, will, upon issuance, be fully paid and non-assessable and not subject to any preemptive rights.

(v) The issuance of certificates representing shares of Common Stock upon conversion of shares of Class A Common Stock shall be made without charge for any stamp or other similar tax in respect of such issuance. However, if any such certificate is to be issued in a name other than that of the holder of the share or shares of Class A Common Stock converted, the person or persons requesting the issuance thereof shall pay to the Corporation the amount of any tax which may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid.

(b) Automatic Conversion.

(i) All outstanding Class A Common Stock shall be automatically converted into Common Stock on a share-for-share basis if at any time Xcel Energy Inc. or its successors by way of merger or consolidation, together with their respective affiliates ceases to own, directly or indirectly, at least 30% of the total number of outstanding Common Shares, as reflected on the stock transfer records of the Corporation. For purposes of the immediately preceding sentence, any Common Shares repurchased and held as treasury shares or canceled by the Corporation shall no longer be deemed "outstanding" from and after the date of repurchase or cancellation.

(ii) Each share of Class A Common Stock shall be automatically converted on a share-for-share basis into Common Stock upon the transfer of such share of Class A Common Stock. For purposes of the immediately preceding sentence, "transfer" means any sale, gift, assignment or other transfer of any ownership or voting interest in any share of Class A Common Stock, including (a) by way of any merger, consolidation, combination or reorganization of the Corporation with or into another entity (whether or not the

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Corporation is the surviving entity), (b) any offer, sale, contract to sell, sale of any option or contract to purchase, purchase of any option or contract to sell, grant of any option, right or warrant to purchase or other direct or indirect transfer or disposal of any shares of Class A Common Stock or any securities convertible into or exercisable or exchangeable for Class A Common Stock or (c) entry into any swap or other arrangement (including by way of insurance) that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of Class A Common Stock, but shall not include (y) any pledge of such stock as collateral, or (z) any "transfer" to any person or entity that (A) is an "Affiliate" (as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of a holder of such Class A Common Stock prior to such transfer and without giving effect to any agreements executed in connection with such transfer or (B) becomes an Affiliate by virtue of transactions for which an agreement was existing as of April 30, 2000.

(iii) In the event of any conversion of the Class A Common Stock pursuant to Section 4(b)(i) or (ii), certificates which formerly represented outstanding shares of Class A Common Stock will thereafter be deemed to represent a like number of shares of Common Stock and all authorized Common Shares shall consist of only Common Stock.

5. Splits, Subdivisions, etc. If the Corporation shall in any manner split, reclassify, subdivide or combine the outstanding Common Stock or Class A Common Stock, the outstanding shares of the other such class of Common Shares shall be proportionately subdivided or combined in the same manner and on the same basis as the outstanding shares of the class of Common Shares that have been split, reclassified, subdivided or combined.

6. No Preemptive Rights. No holder of Common Stock or Class A

Common Stock shall, by reason of such holding, have any preemptive right to subscribe to any additional issue of stock of any class or series of the Corporation or to any security of the Corporation convertible into such stock.

7. Reissuance of Class A Common Stock. Following the initial issuance of shares of Class A Common Stock, the Corporation shall not issue additional shares of Class A Common Stock, and all shares of Class A Common Stock surrendered for conversion or redeemed or repurchased by the Corporation shall be retired and shall not be reissued by the Corporation.

8. Priority of Preferred Stock. The Common Stock and the Class A Common Stock are subject to all powers, rights, privileges, preferences and priorities of the Preferred Stock as may be stated herein and as shall be stated and expressed in any resolution or resolutions adopted by the Board of Directors, pursuant to authority expressly granted and vested in it by Section C of this Article FOURTH.

C. The Board of Directors shall have the authority to issue shares of Preferred Stock from time to time on such terms as it may determine, and to divide the Preferred Stock into one or more series. In connection with the creation of any such series, the Board of Directors shall have the authority to fix by the resolution or resolutions providing for the issue of shares thereof the designations, voting powers, preferences and relative participating, option or other special

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rights of such series, and the qualifications, limitations or restrictions thereof, to the full extent now or hereafter permitted by law.

ARTICLE FIFTH

The Board of Directors of the Corporation, acting by majority vote, may alter, amend or repeal the Bylaws of the Corporation.

ARTICLE SIXTH

The names of the persons who are to serve as the initial directors of the Corporation until the first annual meeting of stockholders or until their successors are elected and qualify are as follows:

Wayne H. Brunetti
Gary R. Johnson
Richard C. Kelly
Edward J. McIntyre

The mailing address for each of the foregoing directors shall be c/o Xcel Energy Inc., 800 Nicollet Mall, Minneapolis, MN 55402.

ARTICLE SEVENTH

Except as otherwise provided by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of this Article SEVENTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

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BYLAWS
OF
NRG ENERGY, INC.

ARTICLE I
STOCKHOLDERS

Section 1. Annual Meeting. The annual meeting of the stockholders of NRG Energy, Inc. (the "Corporation") shall be held either within or without the State of Delaware, at such place and on such date and time as the Board of Directors may designate from time to time in the call of the meeting or in a waiver of notice thereof and fix by resolution in each year for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the stockholders may be called by the Board of Directors, and shall be called by the President or by the Secretary upon the written request of the holders of record of at least a majority of the shares of stock of the Corporation issued and outstanding and entitled to vote, at such times and at such place either within or without the State of Delaware as may be stated in the call or in a waiver of notice thereof.

Section 3. Notice of Meetings. Notice of the time, place and purpose of every meeting of stockholders shall be delivered personally or mailed not less than ten days nor more than sixty days before the date of the meeting to each stockholder of record entitled to vote, at such stockholder's address appearing upon the records of the Corporation or at such other address as shall be furnished in writing by him or her to the Corporation for such purpose. Such further notice shall be given as may be required by law or by these Bylaws. Any meeting may be held without notice if all stockholders entitled to vote are present in person or by proxy, or if notice is waived in writing, either before or after the meeting, by those not present.

Section 4. Quorum. The holders of record of at least a majority of the shares of the stock of the Corporation, issued and outstanding and entitled to vote, present in person or by proxy, shall, except as otherwise provided by law or by these Bylaws, constitute a quorum at all meetings of the stockholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time until a quorum shall have been obtained.

Section 5. Organization of Meetings. Meetings of the stockholders shall be presided over by the Chairman of the Board, if there be one, or if the Chairman of the Board is not present by the President, or if the President is not present, by a chairman to be chosen at the meeting. The Secretary of the Corporation, or in the Secretary of the Corporation's absence, an Assistant Secretary, shall act as secretary of the meeting, if present.

Section 6. Voting. At each meeting of stockholders, except as otherwise provided by statute or the Certificate of Incorporation, every holder of record of stock entitled to vote shall be entitled to one vote in person or by proxy for each share of such stock standing in his or her name on the records of the Corporation. Elections of directors shall be determined by a plurality of the votes cast and, except as otherwise provided by statute, the Certificate of Incorporation or these Bylaws, all other action shall be determined by a majority of the votes cast at such meeting. Each proxy to vote shall be in writing and signed by the stockholder or by such stockholder's duly authorized attorney.

At all elections of directors, the voting shall be by ballot or in such other manner as may be determined by the stockholders present in person or by proxy entitled to vote at such election. With respect to any other matter presented to the stockholders for their consideration at a meeting, any stockholder entitled to vote may, on any question, demand a vote by ballot.

A complete list of the stockholders entitled to vote at each such meeting, arranged in alphabetical order, with the address of each, and the number of shares registered in the name of each stockholder, shall be prepared by the Secretary and shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 7. Action by Consent. Any action required or permitted to be taken at any meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if, prior to such action, a written consent or consents thereto, setting forth such action, is signed by the holders of record of shares of the stock of the Corporation, issued and outstanding and entitled to vote thereon, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

ARTICLE II

DIRECTORS

Section 1. Number, Quorum, Term, Vacancies, Removal. The Board of Directors of the Corporation shall consist of at least one member and shall initially consist of four members. The number of directors may be changed by a resolution passed by a majority of the whole Board or by a vote of the holders of record of at least a majority of the shares of stock of the Corporation, issued and outstanding and entitled to vote, subject to the terms of the Certificate of Incorporation of the Corporation.

A majority of the members of the Board of Directors then holding office (but not less than one-third of the total number of directors) shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority

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of those present may adjourn the meeting from time to time until a quorum shall have been obtained.

Directors shall hold office until the next annual election and until their successors shall have been elected and shall have qualified, unless sooner removed.

Whenever any vacancy shall have occurred in the Board of Directors, by reason of death, resignation, or otherwise, other than removal of a director with or without cause by a vote of the stockholders, it shall be filled by a majority of the remaining directors, though less than a quorum (except as otherwise provided by law), or by the stockholders, and the person so chosen shall hold office until a successor is duly elected and has qualified.

Any one or more of the directors of the Corporation may be removed either with or without cause at any time by a vote of the holders of record of at least a majority of the shares of stock of the Corporation, issued and outstanding and entitled to vote, and thereupon the term of the director or

directors who shall have been so removed shall forthwith terminate and there shall be a vacancy or vacancies in the Board of Directors, to be filled by a vote of the stockholders as provided in these Bylaws.

Section 2. Meetings, Notice. Meetings of the Board of Directors shall be held at such place either within or without the State of Delaware, as may from time to time be fixed by resolution of the Board, or as may be specified in the call or in a waiver of notice thereof. Regular meetings of the Board of Directors shall be held at such times as may from time to time be fixed by resolution of the Board, and special meetings may be held at any time upon the call of two directors, the Chairman of the Board, if one be elected, or the President, by oral, facsimile or written notice, duly served on or sent or mailed to each director not less than one day before such meeting. A meeting of the Board may be held without notice immediately after the annual meeting of stockholders at the same place at which such stockholders meeting was held. Notice need not be given of regular meetings of the Board. Any meeting may be held without notice, if all directors are present, or if notice is waived in writing, either before or after the meeting, by those not present.

Section 3. Committees. The Board of Directors may, in its discretion, by resolution passed by a majority of the whole Board, designate from among its members one or more committees which shall consist of two or more directors. The Board may designate one or more directors as alternate members of any such committee, who may replace any absent or disqualified member at any meeting of the committee. Such committees shall have and may exercise such powers as shall be conferred or authorized by the resolution appointing them. A majority of any such committee may determine its action and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board shall have power at any time to change the membership of any such committee, to fill vacancies in it, or to dissolve it.

Section 4. Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting, if prior to such action a written consent thereto is signed by all members of the Board, or of such

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committee as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee.

Section 5. Compensation. The Board of Directors may determine, from time to time, the amount of compensation which shall be paid to its members. The Board of Directors shall also have power, in its discretion, to allow a fixed sum and expenses for attendance at each regular or special meeting of the Board, or of any committee of the Board. In addition, the Board of Directors shall also have power, in its discretion, to provide for and pay to directors rendering services to the Corporation not ordinarily rendered by directors, as such, special compensation appropriate to the value of such services, as determined by the Board from time to time.

Section 6. Conference Telephone Meetings. One or more directors may participate in a meeting of the Board of Directors, or of a committee of the Board of Directors, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE III

OFFICERS

Section 1. Titles and Election. The officers of the Corporation, who shall be chosen by the Board of Directors, shall be a President, a Treasurer and a Secretary, and, if the Board of Directors from time to time determines to so

elect, a Chairman of the Board, and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and such other officers and agents as it shall deem necessary, and may define their powers and duties. Any number of offices may be held by the same person.

Section 2. Terms of Office. Officers shall hold office until their successors are chosen and qualify.

Section 3. Removal. Any officer may be removed, either with or without cause, at any time, by the affirmative vote of a majority of the Board of Directors.

Section 4. Resignations. Any officer may resign at any time by giving written notice to the Board of Directors or to the Secretary. Such resignation shall take effect at the time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. If the office of any officer or agent becomes vacant by reason of death, resignation, retirement, disqualification, removal from office or otherwise, the directors may choose a successor, who shall hold office for the unexpired term in respect of which such vacancy occurred.

Section 6. Chairman of the Board. The Chairman of the Board of Directors, if one be elected, shall preside at all meetings of the Board of Directors and of the stockholders, and the Chairman shall have and perform such other duties as from time to time may be assigned to the Chairman by the Board of Directors.

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Section 7. Powers and Duties of Executive Officers. The officers of the Corporation shall have such powers and duties in the management of the Corporation as may be prescribed by the Board of Directors and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the Board of Directors. The Board of Directors may require any officer, agent or employee to give security for the faithful performance of his or her duties.

Section 8. Duties of Officers May be Delegated. In case of the absence or disability of any officer of the Corporation, or for any other reason that the Board may deem sufficient, the Board may delegate, for the time being, the powers or duties, or any of them, of such officer to any other officer, or to any director.

ARTICLE IV

INDEMNIFICATION

Section 1. Actions by Others. The Corporation (1) shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director or an officer of the Corporation and (2) except as otherwise required by Section 3 of this Article, may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, agent of or participant in another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts actually and reasonably incurred by such person in connection with such action, suit or proceeding if he or she acted in good faith

and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Actions by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, agent of or participant in another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any

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claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 3. Successful Defense. To the extent that a person who is or was a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 or Section 2 of this Article, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Section 4. Specific Authorization. Any indemnification under Section 1 or Section 2 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 1 or 2, as applicable. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

Section 5. Advance of Expenses. Expenses incurred by any person who may have a right of indemnification under this Article in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he or she is entitled to be indemnified by the Corporation pursuant to this Article.

Section 6. Right of Indemnity not Exclusive. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 7. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of or participant in another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to

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indemnify him or her against such liability under the provisions of this Article, Section 145 of the General Corporation Law of the State of Delaware or otherwise.

Section 8. Invalidity of any Provisions of this Article. The invalidity or unenforceability of any provision of this Article shall not affect the validity or enforceability of the remaining provisions of this Article.

ARTICLE V

CAPITAL STOCK

Section 1. Certificates. The interest of each stockholder of the Corporation shall be evidenced by certificates for shares of stock in such form as the Board of Directors may from time to time prescribe. The certificates of stock shall be signed by the President or a Vice President and by the Secretary, or the Treasurer, or an Assistant Secretary, or an Assistant Treasurer, sealed with the seal of the Corporation, if any, or a facsimile thereof, and countersigned and registered in such manner, if any, as the Board of Directors may by resolution prescribe. Where any such certificate is countersigned by a transfer agent other than the Corporation or its employee, or registered by a registrar other than the Corporation or its employee, the signature of any such officer may be a facsimile signature. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the Corporation.

Section 2. Transfer. The shares of stock of the Corporation shall be transferred only upon the books of the Corporation by the holder thereof in person or by his or her attorney, upon surrender for cancellation of certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require.

Section 3. Record Dates. The Board of Directors may fix in advance a date, not less than ten nor more than sixty days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the distribution or allotment of any rights, or the date when any

change, conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to receive any distribution or allotment of such rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or to receive such distribution or allotment or rights or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

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Section 4. Lost Certificates. In the event that any certificate of stock is lost, stolen, destroyed or mutilated, the Secretary may authorize the issuance of a new certificate of the same tenor and for the same number of shares in lieu thereof. The Secretary may in his or her discretion, before the issuance of such new certificate, require the owner of the lost, stolen, destroyed or mutilated certificate, or the legal representative of the owner to make an affidavit or affirmation setting forth such facts as to the loss, destruction or mutilation as it deems necessary, and to give the Corporation a bond in such reasonable sum as he or she directs to indemnify the Corporation.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 1. Offices. The registered office of the Corporation shall be located at the Corporation Trust Centerm 1209 Orange Street, Wilmington, New Castle County, the State of Delaware and The Corporation Trust Company shall be the registered agent of this Corporation in charge thereof. The Corporation may have other offices either within or without the State of Delaware at such places as shall be determined from time to time by the Board of Directors or the business of the Corporation may require.

Section 2. Fiscal Year. The fiscal year of the Corporation shall begin the first day of January in each year.

Section 3. Books. There shall be kept at such office of the Corporation as the Board of Directors shall determine, within or without the State of Delaware, correct books and records of account of all its business and transactions, minutes of the proceedings of its stockholders, Board of Directors and committees, and the stock book, containing the names and addresses of the stockholders, the number of shares held by them, respectively, and the dates when they respectively became the owners of record thereof, and in which the transfer of stock shall be registered, and such other books and records as the Board of Directors may from time to time determine.

Section 4. Voting of Stock. Unless otherwise specifically authorized by the Board of Directors, all stock owned by the Corporation, other than stock of the Corporation, shall be voted, in person or by proxy, by the President or any Vice President of the Corporation on behalf of the Corporation.

ARTICLE VII

AMENDMENTS

Section 1. Amendments. The vote of the holders of at least a majority of the shares of stock of the Corporation, issued and outstanding and entitled to vote, shall be necessary at any meeting of stockholders to amend or repeal these Bylaws or to adopt new Bylaws. These Bylaws may also be amended or repealed, or new Bylaws adopted, at any meeting of the Board of Directors by the vote of at least a majority of the entire Board; provided that any Bylaws

adopted by the Board may be amended or repealed by the stockholders in the manner set forth above.

Any proposal to amend or repeal these Bylaws or to adopt new Bylaws shall be stated in the notice of the meeting of the Board of Directors or the stockholders, or in the waiver of notice thereof, as the case may be, unless all of the directors or the holders of record of all of the shares of stock of the Corporation, issued and outstanding and entitled to vote, are present at such meeting.

NRG PEAKER FINANCE COMPANY LLC,

as Issuer,

BAYOU COVE PEAKING POWER, LLC,
BIG CAJUN I PEAKING POWER LLC,
NRG ROCKFORD LLC, NRG ROCKFORD II LLC,
AND NRG STERLINGTON POWER LLC,
as Guarantors

AND

XL CAPITAL ASSURANCE INC.,

as Insurer

TO

THE BANK OF NEW YORK,

as Trustee

INDENTURE

Dated as of June 18, 2002

\$325,000,000

Series A Floating Rate Senior Secured Bonds due 2019

Additional Floating Rate Senior Secured Bonds
Additional Fixed Rate Senior Secured Bonds

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INDENTURE, dated as of June 18, 2002, among NRG Peaker Finance Company LLC, a limited liability company duly organized and existing under the laws of the State of Delaware, (herein called the "Company"), having its principal office at 901 Marquette Avenue, Suite 2800, Minneapolis, MN 55402-3265, Bayou Cove Peaking Power, LLC, Big Cajun I Peaking Power LLC, and NRG Sterlington Power LLC, each a Delaware limited liability company, NRG Rockford LLC and NRG Rockford II LLC, each an Illinois limited liability company (herein collectively called the "Guarantors" or the "Project Companies"), XL Capital Assurance Inc., a New York stock insurance company (herein called the "Insurer"), and The Bank of New York, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized (i) the creation of an issue of Series A Floating Rate Senior Secured Bonds due 2019 (the "Series A Bonds") of the tenor and amount hereinafter set forth and (ii) the issuance from time to time of additional series of floating rate and fixed rate senior secured bonds as herein provided (the "Additional Floating Rate Bonds" and "Additional Fixed Rate Bonds", as appropriate, and together, the "Additional Bonds"), and to provide for such Series A Bonds and Additional Bonds, the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Series A Bonds, when executed by the Company and authenticated and delivered under this Indenture and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Bonds by their Holders, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Bonds, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with United States generally accepted accounting principles ("GAAP") and, except as otherwise expressly provided in this Indenture, the

term GAAP, with respect to any computation required or permitted hereunder shall mean such accounting principles as in effect at the date of such computation;

(3) unless the context otherwise requires, any reference to an "Article", "Section" or "Exhibit" refers to an Article or a Section of, or an Exhibit to, this Indenture, as applicable;

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(5) "or" is not exclusive;

(6) "including" means including without limitation;

(7) any agreement, instrument or statute referred to in this Indenture or in any instrument or certificate delivered in connection with this Indenture means such agreement, instrument or statute as amended, modified or supplemented from time to time as permitted hereby in the case of agreements or instruments and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; and

(8) references to a Person are also to its permitted successors and assigns, unless otherwise provided.

"Accelerated Bond Obligations" has the meaning specified in Section 6.01.

"Acceptable Assignee" has the meaning assigned to it in the Common Agreement.

"Act" when used with respect to any Holder, has the meaning specified in Section 1.03.

"Additional Bonds" has the meaning specified in the recitals to this Indenture.

"Additional Fixed Rate Bonds" has the meaning specified in the recitals to this Indenture.

"Additional Floating Rate Bonds" has the meaning specified in the recitals to this Indenture.

"Affiliate" has the meaning assigned to it in the Common Agreement.

"Agent Member" means a member of, or participant in, the Depository.

"Applicable Procedures" means the rules and procedures of the Depository to the extent applicable.

"Authenticating Agent" has the meaning specified in Section 7.13.

"Authorized Officer" means:

(1) with respect to the Trustee, any officer within the Corporate Trust Office of the Trustee, including any Vice President, Assistant Vice President, Assistant Secretary, Assistant Treasurer, Trust Officer or other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such Person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture;

(2) with respect to the Insurer, the Chairman of the Board of the Insurer, the President, Executive Vice President, General Counsel or Associate General Counsel or any Managing Director or Director of the Insurer; and

(3) with respect to the Company or any Guarantor, the President, the Treasurer or any Vice President of the Company or such Guarantor, as the case may be.

"Bankruptcy Event" has the meaning assigned to it in the Common Agreement.

"Board" means either the board of directors of the Insurer or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Management Committee of the Company and to be in full force and effect on the date of such certification, and delivered to the Trustee and the Insurer, provided, that if an Insurer Default has occurred and is continuing, the Company shall endeavor to make such delivery in good faith but failure of the Company to make such a delivery shall not be an Issuer Event of Default under this Indenture.

"Bond Obligations" has the meaning assigned to it in the Common Agreement.

"Bonds" means, collectively, the Series A Bonds and the Additional Bonds.

"Bonds Register" and "Bonds Registrar" have the meanings specified in Section 3.06(1).

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York generally are authorized or obligated by law or executive order to close.

"Calculation Agent" means The Bank of New York, or any successor Calculation Agent as appointed by the Company with the consent of the Insurer (so long as no Insurer Default has occurred and is continuing) and the Swap Counterparty.

"Certificated Bonds" means the Regulation S Certificated Bonds and the Restricted Certificated Bonds.

"Closing Date" has the meaning assigned to it in the Common Agreement.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" has the meaning assigned to it in the Common Agreement.

"Collateral Agent" has the meaning assigned to it in the Common Agreement.

"Common Agreement" means the Common Agreement, dated as of June 18, 2002, among the Insurer, the Trustee, the Company, the Project Companies, the Swap Counterparty and the Collateral Agent.

"Company" means the Person named as the "Company" in the preamble of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean

such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by any Authorized Officer of the Company and delivered to the Trustee and the Insurer.

"Controlling Party" has the meaning assigned to it in the Common Agreement.

"Corporate Trust Office" means the principal office of the Trustee in The City of New York, New York at which at any particular time its corporate trust business shall be principally administered, which is located at 101 Barclay Street, New York, New York, 10286, Attention: Corporate Trust Administration or at such other address as the Trustee may designate by notice to the Holders, the Insurer and the Company, or the principal corporate trust office of any successor Trustee at the address designated by such successor Trustee by notice to the Holders, the Insurer and the Company.

"corporation" means a corporation, limited liability company, association, company, joint-stock company or business trust.

"Debt" has the meaning assigned to it in the Common Agreement.

"Depository" means, initially, The Depository Trust Company, a New York banking corporation, or any successor clearing agency so registered appointed pursuant to Section 3.06(2).

"Depository Agreement" has the meaning assigned to it in the Common Agreement.

"Dollars" or "\$" or any similar references means the currency of the United States.

"DTC" means the Depository.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Financing Documents" has the meaning assigned to it in the Common Agreement.

"Financing Parties" has the meaning assigned to it in the Common Agreement.

"GAAP" has the meaning specified in Section 1.01(2).

"Global Bond" means a Bond that evidences all of or part of the Bonds of any series and bears the legend set forth in Section 2.03, issued to the Depository or its nominee, and registered in the name of the Depository or its nominee.

"Guarantors" has the meaning specified in the preamble of this Indenture.

"Guaranty" has the meaning assigned to it in the Common Agreement.

"Holder" means a Person in whose name a Bond is registered in the Bond Register.

"Indenture" means this Indenture as originally executed or as it may from time to time be supplemented or amended by one or more indentures

supplemental hereto entered into pursuant to the applicable provisions hereof.

"Initial Principal Amount" of a Bond means the principal amount of such Bond at issuance.

"Institutional Accredited Investor" means an institution that is an "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D.

"instrument" means an "instrument" as defined in Section 9-102(a)(47) of the UCC.

"Insurance and Reimbursement Agreement" has the meaning assigned to it in the Common Agreement.

"Insurer" has the meaning specified in the preamble of this Indenture.

"Insurer Default" has the meaning assigned to it in the Common Agreement.

"Interest Period" means, for the Series A Bonds and the Additional Floating Rate Bonds, respectively, the period beginning on the date of issuance of those Bonds and ending on the first Scheduled Payment Date for those Bonds and, thereafter, each of the successive periods beginning on the last day of the preceding Interest Period for those Bonds and ending on the following Scheduled Payment Date for those Bonds, subject to the following: (1) if any Scheduled Payment Date for the Series A Bonds and the Additional Floating Rate Bonds, respectively, is not a Business Day or a London Business Day, the Interest Period that would otherwise end on that Scheduled Payment Date will, instead, end on the Business Day (which is also a London Business Day) following that Scheduled Payment Date unless that Business Day falls in a new calendar month, in which case that Interest Period will end on the Business Day (which is also a London Business Day) preceding that Scheduled Payment Date, and (2) notwithstanding clause (1), the final Interest Period for the Series A Bonds and the Additional Floating Rate Bonds, respectively, will end on the scheduled maturity date of those Bonds, regardless of whether or not the scheduled maturity date is a Business Day or a London Business Day. Interest payable in respect of each Interest Period will accrue from and including the first day and to but excluding the last day of such Interest Period.

"Issue Date" means, with respect to any series of Bonds, the date of issuance thereof. The Issue Date for the Series A Bonds shall be June 18, 2002.

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"Issuer Event of Default" (i) has the meaning assigned to it in the Common Agreement and (ii) shall include any additional events of default that are added for the benefit of the Holders and that are identified as "Issuer Events of Default" in an indenture supplemental hereto executed pursuant to Section 10.01(2).

"Issuer Permitted Debt" has the meaning assigned to it in the Common Agreement.

"Investment Company Act" means the Investment Company Act of 1940, as amended.

"Legend" has the meaning specified in Section 2.02(2).

"London Business Day" means any day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"Management Committee" means the body authorized by the limited liability company agreement of the Company to act for the Company or any duly authorized subcommittee thereof.

"money" has the meaning specified in Section 1-201(24) of the UCC.

"Moody's" means Moody's Investors Service, Inc., or any successor thereto, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the Company, provided, that with respect to the rating of the Bonds, the designation shall be with the consent of the Insurer (so long as no Insurer Default has occurred and is continuing), such consent not to be unreasonably withheld.

"Non-Permitted Holder" has the meaning specified in Section 3.15(1).

"Non-Recourse Persons" has the meaning specified in Article 14.

"Notice of Default" means a written notice given by registered or certified mail or confirmed telecopy or facsimile transmission to the Company by the Trustee specifying the occurrence of an Issuer Event of Default and requiring it to be remedied and stating that such notice is a "Notice of Default" under this Indenture.

"NRG Energy" has the meaning assigned to it in the Common Agreement.

"Obligations" has the meaning assigned to it in the Common Agreement.

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Company, or any person duly appointed in a Board Resolution of the Company, and delivered to the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and is continuing). The officer signing an Officer's Certificate given pursuant to Section 11.04 shall be the principal executive, financial or accounting officer of the Company.

"Operative Documents" has the meaning assigned to it in the Common Agreement.

"Opinion of Counsel" means a written opinion of counsel, who may, but need not, be counsel for the Company, provided, that with respect to matters relating to tax, bankruptcy and

security interests, such counsel shall be independent of the Company and its Affiliates, and who shall be reasonably acceptable to the Trustee and the Insurer (so long as no Insurer Default has occurred and is continuing).

"Optional Redemption Price" has the meaning specified in Section 12.01(1).

"Outstanding", when used with respect to the Bonds, means, as of the date of determination, all Bonds theretofore authenticated and delivered under this Indenture, except:

(i) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or with any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its

own Paying Agent) for the Holders of such Bonds; provided that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision for such notice satisfactory to the Trustee has been made;

(iii) Bonds that have been paid pursuant to Section 3.08 or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to this Indenture, other than any such Bonds in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Bonds are held by a bona fide purchaser in whose hands such Bonds are valid obligations of the Company;

provided, however, that, except as provided for herein, in determining whether the Holders of the requisite Remaining Principal Amount of the Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder or under the Common Agreement, Bonds owned by the Company or any Affiliate of the Company shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds that the Trustee actually knows to be so owned shall be so disregarded; provided, further that Bonds so owned by the Company or any Affiliate of the Company that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Company or any Affiliate of the Company; provided, further that principal amounts of Bonds which have been paid with proceeds of the Policy shall continue to remain Outstanding for purposes of this Indenture until the Insurer has been paid as subrogee pursuant to the provisions of Section 4.2 of the Insurance and Reimbursement Agreement, and the Insurer shall be deemed to be the Holder of such Bonds to the extent of any payments thereon made by the Insurer.

"Paying Agent" means any Person authorized by the Company to pay the principal of, Redemption Price, if any, interest on or any other amounts under any Bonds on behalf of the Company.

"Permitted Change of Control" has the meaning assigned to it in the Common Agreement.

"Permitted Peaker Buyout" has the meaning assigned to it in the Common Agreement.

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"Permitted Peaker Buyout (Completion/Loss Event)" has the meaning assigned to it in the Common Agreement.

"Person" means any individual, corporation, limited liability company, estate, partnership, joint venture, trust (including any beneficiary thereof), unincorporated organization or other legal entity, or any government or any agency or political subdivision thereof.

"Place of Payment" has the meaning specified in Section 3.09(1).

"Policy" has the meaning assigned to it in the Common Agreement.

"Predecessor Bond" of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by such particular Bond; and, for the purposes of this definition, any Bond authenticated and delivered under Section 3.08 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Bond shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Bond.

"Project Companies" has the meaning specified in the preamble of this

Indenture.

"Project Event of Default" has the meaning assigned to it in the Common Agreement.

"Project Revenues" has the meaning assigned to it in the Common Agreement.

"QIB" means a "qualified institutional buyer" within the meaning assigned to that term in Rule 144A.

"Qualified Purchaser" means a "qualified purchaser" within the meaning assigned to that term Section 2(a)(51)(A) of the Investment Company Act.

"Rating Agency" means Standard & Poor's or Moody's or, if Standard & Poor's and Moody's cease to exist, any nationally recognized statistical rating organization or other comparable Person designated by the Company and acceptable to the Insurer (provided that no Insurer Default shall have occurred and be continuing), notice of which designation shall have been given to the Trustee.

"Redemption Date", when used with respect to any Bond to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Premium" has the meaning assigned to it in Section 12.01.

"Reference Banks" means four major banks in the London interbank market selected by the Calculation Agent, acting in good faith and in a commercially reasonable manner.

"Regular Record Date", for any Scheduled Payment Date for the Bonds, means the fifteenth day, whether or not a Business Day, preceding such Scheduled Payment Date.

"Regulation D" means Regulation D promulgated under the Securities Act.

"Regulation S" means Regulation S promulgated under the Securities Act.

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"Regulation S Certificated Bonds" has the meaning set forth in Section 2.01(3).

"Remaining Principal Amount" with respect to a Bond means the Initial Principal Amount of such Bond less any principal amounts of such Bond redeemed pursuant to Article Twelve or Section 3.15(2) hereof and less any amortization payments paid on such Bond.

"Restricted Certificated Bonds" has the meaning specified in Section 2.01(3).

"Restricted Global Bonds" has the meaning specified in Section 2.01(3).

"Rule 144" means Rule 144 promulgated under the Securities Act (or any successor provision thereto).

"Rule 144A" means Rule 144A promulgated under the Securities Act (or any successor provision thereto).

"Rule 144A Information" means such information as is specified pursuant to paragraph (d)(4) of Rule 144A (or any successor provision thereto).

"Scheduled Payment Date" means each date for scheduled payment of principal and/or interest under the terms of the Bonds of any series.

"Scheduled Payments" means, with respect to any Scheduled Payment Date, all scheduled payments in respect of principal and/or interest payable by the Company under the terms of the Bonds of any series on such date.

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"security" has the meaning specified in Section 8-102(a)(15) of the UCC.

"Series A Bonds" has the meaning specified in the recitals to this Indenture.

"Standard & Poor's" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., or any successor thereto, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized rating agency designated by the Company, provided, that with respect to the rating of the Bonds, the designation shall be with the consent of the Insurer (so long as no Insurer Default has occurred and is continuing), such consent not to be unreasonably withheld.

"Stated Maturity", when used with respect to any Series A Bond means June 10, 2019; and when used with respect to any Additional Bond, means the maturity date provided in the Supplemental Indenture applicable thereto.

"Swap Agreement" has the meaning assigned to it in the Common Agreement.

"Swap Counterparty" has the meaning assigned to it in the Common Agreement.

"Swap Obligations" has the meaning assigned to it in the Common Agreement.

"Telerate Page 3750" means the display page of Bridge's Telerate Service designated as 3750 or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates comparable to Three-Month USD-LIBOR-BBA.

"Three-Month USD-LIBOR-BBA" means, for each Interest Period, the rate for deposits in U.S. dollars for a period of three months, commencing on the first day of such Interest Period and in an amount that is representative for a single transaction in that market at that time, that appears on Telerate Page 3750 as of 11:00 a.m., London time, on the USD-LIBOR-BBA Determination Date with respect to such Interest Period. If such rate does not appear on the Telerate Page 3750, then Three-Month USD-LIBOR-BBA for the relevant Interest Period will be determined on the basis of the rates at which deposits in U.S. dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on the USD-LIBOR-BBA Determination Date with respect to such Interest Period to prime banks in the London interbank market for a period of three months commencing on the first day of such Interest Period and in an amount that is representative for a single transaction in that market at that time, assuming an actual/360 day count basis. The Calculation Agent shall request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the rate for that Interest Period will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Interest Period will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the first day of such Interest Period for loans in U.S. dollars to leading European banks for a period

of three months commencing on the first day of such Interest Period and in an amount that is representative for a single transaction in that market at that time. If the Calculation Agent is unable to obtain rate quotations for such loans, the rate for that USD-LIBOR-BBA Determination Date shall be Three-Month USD-LIBOR-BBA as calculated for the immediately preceding Interest Period. Notwithstanding the foregoing, "Three-Month USD-LIBOR-BBA" with respect to the first Interest Period will be 1.87938%.

"Trustee" means the Person named as the "Trustee" in the preamble of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"UCC" means the Uniform Commercial Code as in effect in the State of New York.

"United States" and "U.S." means the United States of America (including the States and the District of Columbia), its territories and possessions and other areas subject to its jurisdiction.

"USD-LIBOR-BBA Determination Date" means with respect to each Interest Period, the second London Business Day preceding the first day of such Interest Period.

SECTION 1.02. Form of Documents Delivered to the Trustee and the Insurer.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters

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and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

All information to be provided under this Indenture by the Company or the Trustee, as applicable, shall be provided by an Authorized Officer of the Company or the Trustee, as applicable.

SECTION 1.03. Compliance Certificates and Opinions.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, including the initial authentication of Notes

on the date of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required hereunder. Each such certificate or opinion, and any certificate evidencing a determination required to be made by the Company under this Indenture, shall be in the form of an Officer's Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements set forth hereunder.

Each certificate or opinion with respect to compliance by or on behalf of the Company with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA Section 314(a)(4)) shall comply with the provisions of TIA Section 314(e) and shall include:

(1) a statement that the Person making such certificate or opinion has read such covenant or condition and the definitions herein or in the Common Agreement relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such Person, he or she has or they have made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been satisfied; and

(4) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been satisfied.

SECTION 1.04. Acts of Holders; Record Dates.

(1) Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; and, except as in this Indenture otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are in this Indenture sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 7.01) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 1.04.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by a signer acting in a capacity other than the signer's individual capacity, such certificate or affidavit shall also constitute sufficient proof of the signer's authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner that the Trustee deems sufficient.

The ownership of Bonds shall be proved by the Bonds Register.

(2) Any Act of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of

anything done, omitted or suffered to be done by the Trustee, the Company or the Insurer in reliance thereon, whether or not notation of such Act is made upon such Bond.

(3) The Company may set any day as the record date for the purpose of determining the Holders entitled to give or take any request, demand, authorization, direction, notice, consent, waiver or other action, or to vote on any action, authorized or permitted to be given or taken by Holders, provided that the Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 6.01, (iii) any request to institute proceedings referred to in Section 6.07, or (iv) any direction referred to in Section 6.14. If not set by the Company prior to the first solicitation of a Holder made by any Person in respect of any such action, or, in the case of any such vote, prior to such vote, the record date for any such action or vote shall be the 30th day (or, if later, the date of the most recent list of Holders required to be provided pursuant to Section 8.01) prior to such first solicitation or vote, as the case may be. With regard to any record date, only the Holders on such date, and no other Holders, shall be entitled to give or take, or vote on, the relevant action whether or not such Holders remain Holders after such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite Remaining

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Principal Amount of Outstanding Bonds on the date the action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date and the proposed action by Holders to be given to the Trustee in writing and to each Holder in the manner set forth in Section 1.05.

(4) Notwithstanding any other provision in this Indenture to the contrary, so long as no Insurer Default has occurred and is continuing, only the Insurer shall be entitled to exercise (i) all rights and remedies with respect to the Bonds under this Indenture, (ii) the right to vote on all matters presented to the Holders and (iii) all other rights and remedies, in each case as the Controlling Party pursuant to Sections 7.4 and 7.5 of the Common Agreement and subject to Section 7.6 of the Common Agreement, and no Act of the Holders of the Bonds will be effective and only an Act of the Insurer in exercising such rights of the Holders of the Bonds in respect of such Act will be effective; provided, however, that (i) the Holders shall retain the right under this Indenture to approve any changes in the material terms of the Bonds as set forth in Section 10.02(2), and (ii) if an Insurer Default occurs and is continuing, all rights and remedies available to a specific series of Bonds shall be exercised directly by the Holders of such series of Bonds, and all rights and remedies available to the Holders of the Bonds as a group under this Indenture shall be exercised by the Holders acting as a group. So long as no Insurer Default has occurred and is continuing, any vote, determination, election or other Act of the Insurer in exercising the rights with respect to the Bonds as provided in this Section 1.04(4) shall be deemed to be the vote, determination, election or other Act of the Holders.

(5) Without limiting the foregoing, a Holder entitled under this Indenture to take any action under this Indenture with regard to a particular Bond may do so with regard to all or any part of the Remaining Principal Amount of such Bond, which action may differ with respect to different portions of the Remaining Principal Amount of such Bond, or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any

part of such principal amount.

SECTION 1.05. Notices, Etc., to Trustee, Company and Insurer.

Any Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(a) the Trustee by any Holder or by the Company or the Insurer, as the case may be, shall be sufficient for every purpose hereunder (unless otherwise in this Indenture expressly provided) if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, and such notice shall be deemed effective when actually received; or

(b) the Company by the Trustee or by any Holder or the Insurer, as the case may be, shall be sufficient for every purpose hereunder (unless otherwise in this Indenture expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the preamble of this Indenture or at any other address previously furnished in writing to the Trustee and the Insurer by the Company, Attention: General Counsel; or

(c) the Insurer by any Holder or by the Trustee or the Company, as the case may be, shall be sufficient for every purpose hereunder (unless otherwise in this Indenture

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expressly provided) if in writing and mailed, first-class postage prepaid, to the Insurer addressed to it at 250 Park Avenue, 19th Floor, New York, NY 10177, Attention: Surveillance;

or to such other Persons or addresses as the Person to whom notice is given may have previously furnished to the others in writing in the manner set forth above.

SECTION 1.06. Notice to Holders.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise in this Indenture expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at the Holder's address as it appears in the Bond Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice sent to the Holders by the Trustee or the Company shall also be sent to the Insurer (so long as no Insurer Default has occurred and is continuing), provided that such notice to the Insurer shall be subject to the same conditions as provided in this Indenture for notices to the Holders.

If by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee and the Insurer, with respect to notifications to the Insurer, shall constitute a sufficient notification for every purpose hereunder.

SECTION 1.07. Waiver.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either

before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders or the Insurer, as the case may be, shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 1.08. Effect of Headings and Table of Contents.

The Article and Section headings in this Indenture and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 1.09. Successors and Assigns.

All covenants and agreements in this Indenture of any party hereto shall bind its successors and assigns, whether so expressed or not.

SECTION 1.10. Separability Clause.

If any provision in this Indenture or in the Bonds shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions, and the

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validity, legality or enforceability of such provisions in any other jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 1.11. Benefits of Indenture.

Nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 1.12. Governing Law.

This Indenture and the Bonds shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 1.13. Business Day Convention.

If any Scheduled Payment Date or Redemption Date is not a business day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Bonds) payment of any amounts due on the Bonds need not be made at such Place of Payment on such date, but may be made on the next succeeding business day at such Place of Payment with the same force and effect as if made on the Scheduled Payment Date or Redemption Date. SECTION 1.14. Waiver of Jury Trial.

THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER FINANCING DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF THE PARTIES HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE TRUSTEE TO ENTER INTO THIS INDENTURE.

ARTICLE TWO

BOND FORMS

SECTION 2.01. Forms Generally.

(1) The Series A Bonds and the Additional Floating Rate Bonds, if any,

shall be in substantially the form set forth in Exhibit A-1, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture (and, in the case of Additional Floating Rate Bonds, the corresponding Supplemental Indenture), the Additional Fixed Rate Bonds, if any, shall be in substantially the form set forth in Exhibit A-2 and as provided in the corresponding Supplemental Indenture, and the Bonds may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or of the Depositary or as may,

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consistently herewith, be determined by the officers executing such Bonds, as evidenced by their execution of the Bonds.

The definitive Bonds shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Bonds, as evidenced by their execution of such Bonds.

(2) All the Bonds shall be issued only in registered form, without coupons.

(3) Upon their original issuance, the Bonds of each series offered and sold to Institutional Accredited Investors who are not also QIBs shall be issued in the names of their initial beneficial owners and delivered to such Holders (or upon their respective orders) by the Company. Such Bonds are referred to in this Indenture as the "Restricted Certificated Bonds".

Bonds of each series offered and sold in their initial distribution in reliance on Regulation S shall be issued in the form of one or more physical certificates, registered in the name of the beneficial owner thereof, in definitive, fully-registered form without interest coupons attached with the applicable legend substantially set forth in the form of Section 2.02(a) and (c) (each, a "Regulation S Certificated Bond"), which shall be duly executed by the Company and authenticated by the Trustee as hereinafter provided.

Bonds offered and sold in their initial distribution in reliance on Rule 144A shall be issued in the form of one or more Global Bonds registered in the name of the Depositary or its nominee and deposited with the Trustee, as custodian for the Depositary. Such Global Bonds are referred to in this Indenture as the "Restricted Global Bonds".

(4) The aggregate Initial Principal Amount of each Restricted Global Bond may be increased or decreased from time to time by adjustments made on the records of the Trustee, as custodian for the Depositary, as provided in Section 3.07.

SECTION 2.02. Form of Legends.

(1) Each Bond issued hereunder shall, in addition to any other legends required or permitted by this Indenture, bear the legend below:

THE BONDS EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR, (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM

REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) BY SUBSEQUENT INVESTORS, AS SET FORTH IN (A) ABOVE, AND, IN ADDITION, TO

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AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501 OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND, IN THE CASE OF EACH OF CLAUSES (A) AND (B), (1) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN \$250,000 FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER AND, AS APPLICABLE, EACH ACCOUNT FOR WHICH SUCH PURCHASER IS ACTING, THAT (I) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT, (II) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER AND EACH SUCH ACCOUNT IS A QUALIFIED PURCHASER), (III) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER OR SUCH ACCOUNT IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (IV) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN \$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (V) IS NOT a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO PURCHASE OR FORCE THE RESALE OF ANY NOTES PREVIOUSLY TRANSFERRED TO NON-PERMITTED HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

THE BONDS EVIDENCED HEREBY MAY NOT BE OFFERED OR SOLD UNLESS: (1) THE TRANSFEREE REPRESENTS THAT IT IS A "QUALIFIED PURCHASER" (AS DEFINED IN 2(A)(51)(A) UNDER THE INVESTMENT COMPANY ACT, AS AMENDED); (2) THE TRANSFEROR REPRESENTS THAT PRIOR TO SUCH TRANSFER, THE TRANSFEROR HAS PROVIDED TO THE TRANSFEREE NOTICE OF THE TRANSFER RESTRICTIONS APPLICABLE TO THIS SECURITY; (3) BOTH THE TRANSFEROR AND THE TRANSFEREE ACKNOWLEDGE THAT THE ISSUER MAY REFUSE TO HONOR THE TRANSFER OF THE SECURITY IF IT DETERMINES IN ITS SOLE DISCRETION THAT THE TRANSFEREE IS NOT A QUALIFIED PURCHASER; AND (4) THE TRANSFEREE ACKNOWLEDGES THAT THE ISSUER HAS THE RIGHT TO FORCE THE REDEMPTION OR RESALE OF THE SECURITY HELD BY THE TRANSFEREE IF IT DETERMINES IN ITS SOLE DISCRETION THAT THE TRANSFEREE IS NOT A QUALIFIED PURCHASER.

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(2) If any Bond is issued upon the transfer, exchange or replacement of another Bond that does not bear a legend setting forth restrictions on transfer that are intended to ensure compliance with the Securities Act as provided in Section 2.02(1) (the "Legend"), the Bond so issued shall not bear the Legend. If any Bond is issued upon the transfer, exchange or replacement of another Bond bearing the Legend, or if a request is made to remove the Legend on any Bond, the Bond so issued shall bear the Legend, or the Legend shall not be removed, as

the case may be, unless there is delivered to the Company such satisfactory evidence, which may include an opinion of independent counsel licensed to practice law in the State of New York, as may be reasonably required by the Company, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A, Rule 144 or Regulation S under the Securities Act or that such Bonds are not "restricted securities" within the meaning of Rule 144 under the Securities Act. Upon provision of such satisfactory evidence, the Trustee, at the direction of the Company, shall authenticate and deliver a Bond that does not bear the Legend.

SECTION 2.03. Form of Legend for Restricted Global Bonds.

Every Restricted Global Bond authenticated and delivered hereunder shall, in addition to any other legends required or permitted by this Indenture, bear a legend in substantially the following form:

THIS BOND IS A RESTRICTED GLOBAL BOND WITHIN THE MEANING OF THE INDENTURE REFERRED TO BELOW AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR ITS NOMINEE. THIS BOND MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A BOND REGISTERED, AND NO TRANSFER OF THIS BOND IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR ITS NOMINEE, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

SECTION 2.04. Form of Trustee's Certificate of Authentication.

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Bonds of the series designated therein referred to in the within-mentioned Indenture.

Dated:

THE BANK OF NEW YORK,

as Trustee

By: _____

Authorized Signatory

ARTICLE THREE

THE BONDS

SECTION 3.01. Title and Terms.

(1) The aggregate Initial Principal Amount of Bonds that may be authenticated and delivered under this Indenture is unlimited.

(2) The Series A Bonds shall be designated the "Series A Floating Rate Senior Secured Bonds due 2019" and shall be issued in an aggregate Initial Principal Amount of \$325,000,000. The Series A Bonds shall have the terms and conditions set forth in the form of the Series A Bonds as set forth in Exhibit

A-1, and in this Indenture.

SECTION 3.02. Additional Bonds.

(1) Subject to clause (2) of this Section 3.02, one or more series of Additional Bonds may be authenticated and delivered under this Indenture, in each case pursuant to an indenture supplemental hereto (a "Supplemental Indenture") substantially in the form of Exhibit E and upon satisfaction of the conditions set forth in this Section 3.02. Each series of Additional Floating Rate Bonds shall have the terms and conditions set forth in Exhibit A-1, and in this Indenture, subject to such insertions, omissions, substitutions and variations as may be provided in the corresponding Supplemental Indenture. Each series of Additional Fixed Rate Bonds shall have the terms and conditions set forth in Exhibit A-2, this Indenture and in the Supplemental Indenture corresponding to such issuance.

(2) Additional Bonds may be issued by the Company; provided that (i) the Trustee shall have received prior to such issuance an Officer's Certificate from the Company certifying that (a) each of the conditions set forth in this Section 3.02(2) and the Supplemental Indenture relating to the issuance of such Additional Bonds has been satisfied and (b) the incurrence of Debt pursuant to the issuance of Additional Bonds complies with Section 4.3 (including, without limitation, the definition of Issuer Permitted Debt) of the Common Agreement, (ii) an appropriate Supplemental Indenture relating to the issuance of such Additional Bonds substantially in the form of Exhibit E hereto has been executed and delivered, (iii) any supplements, amendments or modifications to or of the Financing Documents that may be required or appropriate in connection with the issuance of such Additional Bonds have been executed and delivered (in respect of which the consent of the Trustee and the Holders shall not be required, except to the extent required by any such Financing Document), and (iv) the Trustee shall have received the written consent of each Guarantor confirming that such Guarantor's Guaranty shall apply to the Bonds and the Additional Bonds which the Company proposes to issue.

(3) Upon satisfaction of the applicable conditions set forth in clause (2) of this Section 3.02, the Company shall execute Additional Bonds and deliver them to the Trustee, and the Trustee, upon the written request of the Company, shall authenticate such Additional Bonds and deliver them to the purchasers thereof as may be directed by the Company in writing, without any further action of the Company.

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(4) Upon the issuance of any Additional Bonds, the Company shall promptly provide the Trustee with a schedule that will set forth the requirements for the payment of principal of and interest on such Additional Bonds.

SECTION 3.03. Denominations.

The Bonds of each series shall be issuable only in fully registered form without coupons and in principal amounts only in denominations of \$250,000 and integral multiples of \$1,000 in excess thereof.

SECTION 3.04. Execution, Authentication, Delivery and Dating.

The Bonds shall be executed on behalf of the Company by any of its Authorized Officers, attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Bonds may be manual or facsimile.

Bonds bearing the manual or facsimile signatures of individuals who were at any time the Authorized Officers of the Company shall bind the Company,

notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Bonds or did not hold such offices at the date of such Bonds.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Bonds of each series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Bonds; and the Trustee shall authenticate and deliver such Bonds in accordance with such Company Order.

Each Bond shall be dated the date of its authentication.

No Bond shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Bond a certificate of authentication substantially in the form provided for in this Indenture executed by the Trustee by manual signature, and such certificate upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Bond shall have been authenticated and delivered hereunder and never issued and sold by the Company, and the Company shall deliver such Bond to the Trustee for cancellation as provided in Section 3.11, for all purposes of this Indenture such Bond shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

SECTION 3.05. Temporary Bonds.

Pending the preparation of definitive Bonds of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Bonds in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Bonds may determine, as evidenced by their execution of such Bonds.

If temporary Bonds of any series are issued, the Company will cause definitive Bonds of that series to be prepared without unreasonable delay. After the preparation of definitive Bonds of such series, the temporary Bonds of such series shall be exchangeable for definitive Bonds of such series upon surrender of the temporary Bonds of such series at any office or agency of the Company designated pursuant to Section 11.02, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Bonds of any series the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Bonds of the same series, of any authorized denominations and of like tenor and aggregate Initial Principal Amount. Until so exchanged, the temporary Bonds of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds of such series and tenor.

SECTION 3.06. Registration, Registration of Transfer and Exchange.

(1) The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the "Bonds Register") in which, subject to Sections 3.06(2) and 3.07 and to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Bonds and of transfers of Bonds. The Trustee is hereby appointed "Bonds Registrar" for the purpose of registering Bonds and transfers of Bonds as in this Indenture provided.

Subject to Sections 3.06(2) and 3.07, upon surrender for registration of transfer of any Bond of a series at the office or agency of the Company

designated pursuant to Section 11.02, the Company shall execute, and the Trustee shall authenticate and deliver, one or more new Bonds of the same series, of any authorized denominations and of like tenor and aggregate Initial Principal Amount.

At the option of the Holder, Bonds of any series may be exchanged for other Bonds of the same series, of any authorized denominations and of like tenor and aggregate Initial Principal Amount, upon surrender of the Bonds to be exchanged at such office or agency. Whenever any Bonds are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Bonds that the Holder making the exchange is entitled to receive.

All Bonds issued upon any registration of transfer or exchange of Bonds shall be the valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture, as the Bonds surrendered upon such registration of transfer or exchange.

Every Bond presented or surrendered for registration of transfer or exchange shall (if so required by the Company or Bonds Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Bonds Registrar duly executed, by the Holder thereof or such Holder's attorney duly authorized in writing and, in the case of any Bond that bears the Legend referred to in Section 2.02(1)(a), a certificate in the form of Exhibit B duly executed by the transferor Holder or such Holder's attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Bonds, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Bonds.

If the Bonds are to be redeemed in part, the Company shall not be required (A) to issue, register the transfer of or exchange any Bonds of any series during a period beginning at the

opening of 15 days before the day of the mailing of a notice of redemption of the Bonds and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Bond in whole or in part, except the unredeemed portion of any Bond being redeemed in part.

(2) The provisions of clauses (a), (b), (c) and (d) below shall apply only to Restricted Global Bonds:

(a) Each Restricted Global Bond authenticated under this Indenture shall be registered in the name of the Depositary or its nominee and delivered to the Depositary or its nominee or custodian, and each such Restricted Global Bond shall constitute a single Bond for all purposes of this Indenture.

(b) Notwithstanding any other provision in this Indenture, no Restricted Global Bond may be exchanged in whole or in part for Bonds in certificated form, and no transfer of a Restricted Global Bond in whole or in part may be registered, in the name of any Person other than the Depositary or its nominee unless (i) the Depositary (x) has notified the Company that it is unwilling or unable to continue as a depositary for such Restricted Global Bond or (y) has ceased to be a clearing agency registered under the Exchange Act, or (iii) there shall have occurred and be continuing an Issuer Event of Default.

(c) Subject to clause (b) above, any exchange of a Restricted Global Bond for other Bonds may be made in whole or in part, and all

Bonds issued in exchange for a Restricted Global Bond or any portion thereof shall be registered in such names as the Depository shall direct.

(d) Every Bond authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Restricted Global Bond or any portion thereof, whether pursuant to this Section, Section 3.05, 3.08, 10.05 or 12.06 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Restricted Global Bond, unless such Bond is registered in the name of a Person other than the Depository or its nominee.

SECTION 3.07. Restrictions on Transfer.

(1) Each Holder and beneficial owner of any Bond shall be deemed to have represented and agreed as follows (terms used in this Section 3.07(1) that are defined in Rule 144A, Regulation D or Regulation S are used in this Indenture as defined therein):

(a) Such Holder or beneficial owner either:

(i) (x) is a QIB, (y) is aware that the sale of the Bonds to it is being made in reliance on Rule 144A, and (z) is acquiring such Bonds for its own account or the account of a QIB,

(ii) (x) is an Institutional Accredited Investor purchasing such Bonds for its own account, and (y) is not acquiring such Bonds with a view to any resale or distribution thereof other than in accordance with the restrictions set forth in this Section 3.07, or

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(iii) is a non-U.S. person acquiring the Bonds in an offshore transaction in reliance on Regulation S.

(b) Such Holder or beneficial owner is a Qualified Purchaser;
and

(c) Such Holder or beneficial owner understands that the Bonds have not been registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (i) (A) by an initial investor, (1) to a person who such Holder or beneficial owner reasonably believes is a QIB acquiring for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A, (2) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, or (3) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), and (B) by a subsequent investor, as set forth in (A) above, and, in addition, to an institutional investor that is an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act pursuant to an exemption from registration under the Securities Act (if available) or (C) pursuant to an effective registration statement under the Securities Act, (ii) to a person who is a Qualified Purchaser for purposes of Section 3(c)(7) of the Investment Company Act, and (iii) in accordance with all applicable securities laws of the states of the United States and other jurisdictions. Such Holder or beneficial owner also understands that the Company has not been registered under the Investment Company Act. Such Holder or beneficial owner understands and agrees that any purported transfer of the Bonds to a purchaser that does not comply with the requirements set forth in this Section 3.07(1)(c) will be null

and void abinitio.

(2) Notwithstanding any other provisions of this Indenture or the Bonds, transfers of Bonds, in whole or in part, and transfers of interests in Restricted Global Bonds shall be made only in accordance with this Section 3.07(2).

(a) Within Restricted Global Bond. Beneficial interests in any Restricted Global Bond may be transferred to Persons who take delivery thereof in the form of a beneficial interest in the same Restricted Global Bond in accordance with the transfer restrictions set forth in the Legend which shall be set forth on such Restricted Global Bond. No written orders or instructions shall be required to be delivered to the Bonds Registrar to effect the transfers described in this Section 3.07(2)(a). Nothing in this Section 3.07(2) shall be construed to limit the obligations of the Company to institute the Section 3(c)(7) Procedures described in Section 3.14.

(b) Restricted Global Bond to Regulation S Certificated Bonds or Restricted Certificated Bonds. If the holder of a beneficial interest in Restricted Global Bond wishes at any time transfer such interest to a Person who takes delivery thereof in the form of a Regulation S Certificated Bond or a Restricted Certificated Bond of the same series, such transfer may be effected (i) subject to the Applicable Procedures and only in accordance with this Section 3.07(2)(b) and (ii) provided that the remaining principal amount of such holder's beneficial interest in the Restricted Global Bonds shall either equal zero or meet the applicable minimum denomination set forth in Section 3.03. Upon receipt by the Trustee, as Bonds Registrar, at its office in The City of New York of (i) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member to be debited for such beneficial interest, (ii)

a certificate in substantially the form set forth in Exhibit C-1 (in the case of a transfer to a Person who takes delivery thereof in the form of a Regulation S Certificated Bond) or Exhibit C-2 (in the case of a transfer to a Person who takes delivery thereof in the form of a Restricted Certificated Bond), executed by the holder of such beneficial interest in such Restricted Global Bond, and (iii) an Investor Certificate executed by the proposed transferee of such interest in the form of Exhibit D-1 (in the case of a Person who takes delivery in the form of a Regulation S Certificated Bond) or Exhibit D-2 (in the case of a Person who takes delivery in the form of a Restricted Certificated Bond), in each case containing certifications as to certain Securities Act, Investment Company Act and U.S. tax matters, including that the proposed transferee is (A) either (1) a Non-U.S. Person purchasing in an offshore transaction in reliance on Regulation S (in the case of a transfer to a Person who takes delivery in the form of a Regulation S Certificated Bond) or (2) an Institutional Accredited Investor (in the case of a Person who takes delivery in the form of a Restricted Certificated Bond) and, in each case, (B) a Qualified Purchaser, the Trustee, as Bonds Registrar shall instruct the Depository to reduce Initial Principal Amount of such Restricted Global Bond by the principal amount of the beneficial interest in such Restricted Global Bond to be so transferred, and the Trustee shall record the transfer in the Bond Register and, upon execution by the Company, deliver one or more Regulation S Certificated Bonds or Restricted Certificated Bonds, as applicable, such Bonds together having a principal amount equal to the amount by which the Initial Principal Amount of the Restricted Global Bond was reduced upon

such transfer and each such Bond in the authorized minimum denomination and integral multiples specified in Section 3.03. Any purported transfer in violation of the foregoing requirements shall be null and void ab initio, and the Trustee shall not register any such purported transfer and shall not deliver such Regulation S Certificated Bonds or Restricted Certificated Bonds, as applicable.

(c) Regulation S Certificated Bond or Restricted Certificated Bond to Restricted Global Bond. If the holder of a Regulation S Certificated Bond or Restricted Certificated Bond wishes at any time to transfer all or a portion of such Bond to a Person who wishes to take delivery thereof in the form of a beneficial interest in the Restricted Global Bond of the same series, such transfer may be effected, subject to the Applicable Procedures and only in accordance with this Section 3.07(2)(c). Upon receipt by the Trustee, as Bonds Registrar, at its office in The City of New York of (i) such Regulation S Certificated Bond or Restricted Certificated Bond as provided in Section 3.06, and written instructions satisfactory to the Bonds Registrar directing the Trustee to credit or cause to be credited to a specified Agent Member's account a beneficial interest in the Restricted Global Bond in a principal amount equal to the Initial Principal Amount of the Regulation S Certificated Bond or Restricted Certificated Bond (or portion thereof) to be so transferred, (ii) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member to be credited with such beneficial interest, (iii) a certificate substantially in the form set forth in Exhibit C-3 executed by the holder of such Regulation S Certificated Bond or Restricted Certificated Bond and (iv) an Investor Certificate executed by the proposed transferee of such Bond in the form of Exhibit D-3, containing certifications as to certain Securities Act, Investment Company Act and U.S. tax matters, including that the proposed transferee is a QIB and a Qualified Purchaser, the Trustee, as Bond Registrar, shall cancel such Regulation S Certificated Bond or Restricted Certificated Bond, as applicable, and shall instruct the Depository to increase the Initial Principal Amount of such Restricted Global Bond by

the Initial Principal Amount of the Regulation S Certificated Bond or Restricted Certificated Bond to be transferred and to credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in such Restricted Global Bond having a principal amount equal to the amount by which the Initial Principal Amount of such Regulation S Certificated Bond or Restricted Certificated Bond was reduced upon such transfer. Regulation S Certificated Bond and Restricted Certificated Bonds may not otherwise be exchanged for Restricted Global Bonds or for beneficial interests in Restricted Global Bonds. Any purported transfer in violation of the foregoing requirements shall be null and void ab initio, and the Trustee shall not register any such purported transfer of a Regulation S Certificated Bond or Restricted Certificated Bond, as applicable, in the form of a beneficial interest in the Restricted Global Bond.

(d) Within Regulation S Certificated Bonds and Restricted Certificated Bonds or Between Certificated Bonds. If the holder of a Regulation S Certificated Bond or Restricted Certificated Bond wishes at any time to transfer all or a portion of such Bond to a Person who wishes to take delivery thereof in the form of a Regulation S Certificated Bond or Restricted Certificated Bond of the same series, such transfer may be effected only in accordance with this Section 3.07(2)(d). Upon receipt by the Trustee, as Bond Registrar, at its office in The City of New York of (i) such Regulation S Certificated

Bond or Restricted Certificated Bond as provided in Section 3.06, and written instructions satisfactory to the Bond Registrar directing the Trustee to cancel such Certificated Bond surrendered for transfer and issue the applicable Certificated Bond in a principal amount equal to the Initial Principal Amount of the Certificated Bond (or a portion thereof) to be so transferred, (ii) a certificate substantially in the form set forth in Exhibit C-1 (in the case of a Person who takes delivery in the form of a Regulation S Certificated Bond) or Exhibit C-2 (in the case of a Person who takes delivery in the form of a Restricted Certificated Bond) executed by the holder of such Certificated Bond surrendered for transfer and (iii) an Investor Certificate executed by the proposed transferee of such Bond in the form of Exhibit D-1 (in the case of a Person who takes delivery in the form of a Regulation S Certificated Bond) or Exhibit D-2 (in the case of a Person who takes delivery in the form of a Restricted Certificated Bond), containing certifications as to certain Securities Act, Investment Company Act and U.S. tax matters, including that the proposed transferee is (A) either (1) a Non-U.S. Person purchasing in an offshore transaction in reliance on Regulation S (in the case of a transfer to a Person who takes delivery in the form of a Regulation S Certificated Bond) or (2) an Institutional Accredited Investor (in the case of a Person who takes delivery in the form of a Restricted Certificated Bond) and, in each case, (B) a Qualified Purchaser, the Trustee, as Bond Registrar, shall cancel such Certificated Bond surrendered for transfer, and the Trustee shall record the transfer in the Bond Register and, upon execution by the Company, deliver one or more Certificated Bonds together having a principal amount equal to the Initial Principal Amount (or a portion thereof) of the Certificated Bond so transferred and each such Certificated Bond in the authorized minimum denomination and integral multiples specified in Section 3.03. Any purported transfer in violation of the foregoing requirements shall be null and void ab initio, and the Trustee shall not register any such purported transfer of a Regulation S Certificated Bond or Restricted Certificated Bond.

(3) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable

law with respect to any transfer of any interest in any Bond other than to require delivery of certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 3.08. Mutilated, Destroyed, Lost and Stolen Bonds.

(1) If any mutilated Bond is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Bond of the same series and of like tenor and Initial Principal Amount and bearing a number not contemporaneously outstanding.

(2) If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Bond and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Bond has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Bond, a new Bond of the same series and of like tenor and Initial Principal Amount and bearing a number not contemporaneously outstanding.

(3) If any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Bond, pay such Bond.

(4) Upon the issuance of any new Bond under this Section 3.08, the Company or the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee and its agents) connected therewith.

(5) Subject to clause (2) above, every new Bond issued pursuant to this Section 3.08 in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

(6) The provisions of this Section 3.08 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

SECTION 3.09. Payment of Principal and Interest.

(1) All payments of the principal of, the Optional Redemption Price, if any, interest on and other amounts in respect of the Regulation S Certificated Bonds and Restricted Certificated Bonds shall be payable at the office or agency of the Company maintained for that purpose pursuant to Section 11.02 and at any other office or agency maintained by the Company for that purpose (each, a "Place of Payment"); provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Bond Register. All payments of the principal of, the Optional Redemption Price, if any, interest on and other amounts under the Restricted Global

Bonds shall be made to the Depositary or its nominee, as the holder thereof. Payment to or credit to the accounts of owners of beneficial interests in such Bonds will be effected pursuant to the procedures and customary practices of the Depositary and its Agent Members.

(2) Interest on any Bond (including overdue interest and interest thereon) that is payable on any Scheduled Payment Date shall be paid to the Person in whose name that Bond (or one or more Predecessor Bonds) is registered at the close of business on the Regular Record Date for such interest.

(3) Each Bond delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

(4) Amounts properly withheld under the Code by any Person from a payment to any Holder of interest and/or principal and/or the Optional Redemption Price shall be considered as having been paid by the Company, or the Insurer if applicable, to such Holder for all purposes of this Indenture.

SECTION 3.10. Persons Deemed Owners.

(1) Prior to due presentment of a Bond for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of and any premium and any

interest on such Bond and for all other purposes whatsoever, whether or not such Bond be overdue, and none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

(2) Neither any Agent Member nor any other Person on whose behalf any Agent Member may act shall have any rights under this Indenture with respect to any Restricted Global Bond registered in the name of the Depository or its nominee, or under any Restricted Global Bond registered in the name of the Depository or its nominee, and the Depository or its nominee, as the case may be, shall be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and holder of such Restricted Global Bond (including all Bonds represented thereby) for all purposes whatsoever. Notwithstanding the foregoing, nothing in this Indenture shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or such nominee, as the case may be, as between such Depository, its Agent Members and any other Person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of any Holder.

(3) For so long as Bonds are represented by Restricted Global Bonds, the Company and the Trustee may request, accept and rely upon a certificate or letter of confirmation signed on behalf of the Depository, or any form of record executed by it, to the effect that at any particular time or throughout any particular period any particular Person is, was or will be shown in its records as entitled to a particular interest in the Restricted Global Bonds.

SECTION 3.11. Cancellation.

All Bonds surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Bonds previously authenticated and delivered hereunder that the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Bonds previously authenticated hereunder that the Company has not issued and sold, and all Bonds so delivered shall be promptly cancelled by the Trustee. No Bonds shall be authenticated in lieu of or in exchange for any Bonds cancelled as provided in this Section 3.11, except as expressly permitted by this Indenture. All cancelled Bonds held by the Trustee shall be disposed of by the Trustee in accordance with its customary procedures unless the Trustee shall be directed by a Company Order to return the cancelled Bonds to the Company.

SECTION 3.12. CUSIP, ISIN and Common Code Numbers.

The Company in issuing the Bonds may use CUSIP, ISIN and Common Code numbers and, if so, the Trustee shall use CUSIP, ISIN and Common Code numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers; provided further that the Trustee shall assume no responsibility for the accuracy of such numbers and any such redemption shall not be affected by any defect in or omission of such numbers.

SECTION 3.13. Tax Treatment.

In the absence of any change in law occurring after the Issue Date that would render the treatment contemplated in this Section 3.13 inconsistent with the law, regulation, or any interpretation thereof, based upon representations from each Holder and beneficial owner of the Bonds, as of the Issue Date and for so long as the Company has no reason to know and an Authorized Officer of the

Trustee or any Paying Agent has not received actual notice that such representations by Holders and beneficial owners of at least 75% of the aggregate principal amount of the Bonds are false or unreliable, the Company, the Trustee and any Paying Agent agree to treat the Bonds for all United States federal tax purposes as investment securities and not as an extension of credit pursuant to a loan agreement; provided, however, that the Company, the Trustee and any Paying Agent shall not be obligated under this covenant with respect to any Bonds held by a Holder or beneficial owner with respect to which the Company has reason to know or an Authorized Officer of the Trustee or any Paying Agent has received actual notice that such representations made by such Holder or beneficial owner, as the case may be, as of the Issue Date are false or unreliable.

By accepting a Bond or a beneficial interest therein, each Holder and beneficial owner agrees to such treatment and covenants to take no action inconsistent with such treatment unless otherwise notified by the Company.

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SECTION 3.14. Section 3(c)(7) of the Investment Company Act Procedures for Restricted Global Bonds.

(1) Important Notices. On or after the Issue Date, the Company shall send a copy of the "Section 3(c)(7) Important Notice to DTC", with a request that DTC forward such report to the relevant Agent Members.

(2) DTC Actions. On or after the Issue Date, the Company shall direct DTC to take the following steps in connection with the Restricted Global Bonds:

(a) to include the "3c7" marker in the DTC 20-character security descriptor and the 48-character additional descriptor for each Restricted Global Bond order to indicate that sales of interests in the Restricted Global Bond are limited to Qualified Purchasers;

(b) to cause each physical DTC deliver order ticket delivered by DTC to purchasers to contain the DTC 20-character security descriptor; and to cause each DTC deliver order ticket delivered by DTC to purchasers in electronic form to contain the "3c7" indicator and a related user manual for participants, which will contain a description of the relevant restrictions;

(c) to send a Section 3(c)(7) Important Notice to all DTC Participants in connection with the initial issuance of the Restricted Global Bonds; and

(d) the Company will advise DTC that it is a Section 3(c)(7) Company and will request DTC to include the Restricted Global Bonds in DTC's "Reference Directory" of Section 3(c)(7) offerings.

(3) Bloomberg Screens, etc. The Company shall on or after the Issue Date request Bloomberg L.P. to include the following on each Bloomberg screen containing information about the Restricted Global Bonds:

(a) the "Bond Box" on the bottom of the "Security Display" page describing each Restricted Global Bond should state: "Iss'd Under 144A/3c7";

(b) the "Security Display" page should have a flashing red indicator stating "See Other Available Information";

(c) such indicator should link to an "Additional Security Information" page, which should state that the Restricted Global Bonds "are being offered in reliance on the exemption from registration under

Rule 144A to Persons that are both (1) qualified institutional buyers (as defined in Rule 144A) and (2) qualified purchasers (as defined under Section 3(c)(7))."

(4) CUSIP. The Company shall cause each "CUSIP" number obtained for the Restricted Global Bonds to have an attached "fixed field" that contains "3c7" and "144A" indicators.

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SECTION 3.15. Certain Transactions Void; Company Right to Force Sale or Redemption.

(1) Notwithstanding anything to the contrary elsewhere in this Indenture, any transfer of a beneficial interest in any Bonds to a Person (any such Person, a "Non-Permitted Holder") that is not both (a) a Qualified Institutional Buyer, a non-U.S. Person as defined in Regulation S or an Institutional Accredited Investor and (b) a Qualified Purchaser shall be null and void and any such purported transfer of which the Company or the Trustee shall have notice may be disregarded by the Company and the Trustee for all purposes. The Trustee shall hold any funds conveyed by the intended transferee of such interest in such Restricted Global Bond, Regulation S Certificated Bond or Restricted Certificated Bond in trust for the transferor and shall promptly reconvey such funds to such Person in accordance with the written instructions thereof delivered to the Trustee at its Corporate Trust Office.

(2) If any Non-Permitted Holder shall become the owner of a beneficial interest in any Restricted Global Bond or the Holder of a Regulation S Certificated Bond or Restricted Certificated Bond, the Company or the Trustee on its behalf shall, promptly after discovery that such person is a Non-Permitted Holder by the Company or the Trustee (and notice by the Trustee to the Company, if the Trustee makes the discovery), send notice to such Non-Permitted Holder demanding that such Non-Permitted Holder transfer its interest to a Person that is not a Non-Permitted Holder within thirty (30) days of the date of such notice. If such Non-Permitted Holder fails to so transfer its Bonds, the Company shall have the right, without further notice to the Non-Permitted Holder, either (i) to redeem such Bonds at a redemption price equal to the principal amount thereof plus accrued interest thereon (but excluding any Redemption Premium) or (ii) to sell such Bonds or such Non-Permitted Holder's beneficial interest in such Bonds, as applicable, to a purchaser selected by the Company that is not a Non-Permitted Holder on such terms as the Company may choose. The Company may select the purchaser by soliciting one or more bids from one or more brokers or other market professionals that regularly deal in securities similar to the Bonds, and selling such Bonds to the highest such bidder. However, the Company may select a purchaser by any other means determined by it in its sole discretion. The Holder of each Bond, the Non-Permitted Holder and each other Person in the chain of title from the Holder to the Non-Permitted Holder, by its acceptance of an interest in the Bonds or the Bonds, as applicable, agrees to cooperate with the Company and the Trustee to effect such transfers. The proceeds of any such forced sale, net of any commissions, expenses and taxes due in connection with such sale shall be remitted to the Non-Permitted Holder. The terms and conditions of any sale under this Section 3.15 shall be determined in the sole discretion of the Company, and the Company shall not be liable to any Person having an interest in the Bonds sold as a result of any such sale or the exercise of such discretion.

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GUARANTY

SECTION 4.01. Guaranty.

All the provisions of Article 6 of the Common Agreement which govern the Guaranty of the Bond Obligations of each of the Project Companies are hereby incorporated by reference into this Indenture in the same manner and to the same extent as if such provisions were expressly set forth herein.

ARTICLE FIVE

SATISFACTION AND DISCHARGE

SECTION 5.01. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Bonds in this Indenture expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when:

(1) either:

(a) all Bonds theretofore authenticated and delivered (other than (i) Bonds that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 3.08 and (ii) Bonds for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust as provided in Section 11.03) have been delivered to the Trustee for cancellation; or

(b) all such Bonds not theretofore delivered to the Trustee for cancellation:

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (b) (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee an amount sufficient to pay and discharge the entire

indebtedness on such Bonds not theretofore delivered to the Trustee for cancellation, for principal and premium, if any, and interest to the date of such deposit (in the case of Bonds that have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be, and such amount is available for the payment of principal, the Optional Redemption Price, if any, and interest in accordance with Section 12.05; and

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company to the Insurer hereunder or pursuant to the other Financing Documents, or has been relieved of all obligations hereunder pursuant

to Article 13; and

(3) the Company has delivered to the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and is continuing), an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent in this Indenture provided for relating to the satisfaction and discharge of this Indenture have been complied with; and

(4) the Policy shall have terminated in accordance with its terms or otherwise and shall have been surrendered to the Insurer.

(5) Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 7.07, the obligations of the Trustee to any Authenticating Agent under Section 7.13 and, if money shall have been deposited with the Trustee pursuant to subclause (b) of clause (1) of this Section 5.01, the obligations of the Trustee under Section 11.03(2) Section 12.05 shall survive.

ARTICLE SIX

REMEDIES

SECTION 6.01. Acceleration of Maturity and Rescission and Annulment by the Holders.

(1) If an Insurer Default occurs and is continuing and if an Issuer Event of Default has occurred and is continuing, then and in every such case the Holders evidencing not less than 60% of the Remaining Principal Amount of the Outstanding Bonds may direct the Trustee to declare the Bonds to be immediately due and payable by written notice to the Company, and upon any such declaration the unpaid principal amount of the Bonds, together with accrued and unpaid interest thereon through the date of acceleration (the "Accelerated Bond Obligations"), shall become immediately due and payable and (b) require the Company immediately, without presentment, demand, protest or other notice of any kind, all of which the Company hereby expressly waives, to pay to the Collateral Agent an amount in immediately available funds equal to the aggregate amount of Accelerated Bond Obligations.

Notwithstanding the foregoing, upon the occurrence of an Issuer Event of Default specified in Section 7.1(d) of the Common Agreement, the Bonds shall become immediately due and payable, without declaration, notice or demand by or to any Person.

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(2) At any time after a declaration of acceleration of maturity has been made by the Holders and before a judgment or decree for payment of the amount due has been obtained by the Trustee as hereinafter provided in this Article Six, the Holders evidencing not less than 60% of the Remaining Principal Amount of the Outstanding Bonds, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if:

(a) the Company has paid or deposited with the Trustee a sum sufficient to pay all principal of and interest on the Bonds and all other amounts that would then be due hereunder or upon the Bonds if the Issuer Event of Default giving rise to such acceleration had not occurred;

(b) the Company has paid all the outstanding Swap Obligations then due and payable under the Swap Agreement to the Swap Counterparty, if applicable, as evidenced by an Officer's Certificate delivered to the Trustee; and

(c) all Issuer Events of Default, other than the nonpayment of

the principal of the Bonds that has become due solely by such acceleration, have been cured or waived as provided in Section 6.14.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

SECTION 6.02. Suits for Enforcement by Trustee.

If an Insurer Default occurs and is continuing and if an Issuer Event of Default has occurred and is continuing, the Trustee shall, at the direction of the Holders evidencing not less than 60% of the Remaining Principal Amount of the Outstanding Bonds, proceed to protect and enforce its rights and the rights of the Holders under this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other proper remedy.

SECTION 6.03. Reserved.

SECTION 6.04. Application of Money Collected.

Any money collected by the Collateral Agent from the Company pursuant to Section 6.01 shall be distributed by the Collateral Agent in accordance with Section 7.7 of the Common Agreement.

SECTION 6.05. Reserved.

SECTION 6.06. Trustee May File Proofs of Claim.

In case of any judicial proceeding relative to the Company, its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions necessary or appropriate in order to have claims of the Holders or the Trustee, as the case may be, allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator,

sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and if the Trustee shall consent to the making of such payments directly to the Holders to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder or the Insurer any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder or the Insurer or to authorize the Trustee to vote in respect of the claim of any Holder or the Insurer in any such proceeding; provided, however, that the Trustee may, on behalf of the Holders (but not on behalf of the Insurer), vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

SECTION 6.07. Trustee May Enforce Claims Without Possession of Bonds.

All rights of action and claims under this Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee

of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Bonds or the Insurer, as applicable, in respect of which such judgment has been recovered.

SECTION 6.08. Limitation on Suits.

No Holder of any Bond shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(1) such Holder has previously given written notice to the Trustee of a continuing Issuer Event of Default and a continuing Insurer Default;

(2) the Holders of not less than 60% in Remaining Principal Amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Issuer Event of Default and Insurer Default in its own name as Trustee hereunder;

(3) such Holder (or Holders) has offered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 30 days after its receipt of such notice, request and offer of indemnity satisfactory to it has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given (in accordance with the terms of this Indenture) to the Trustee during such 30-day period by the Holders of a majority in Remaining Principal Amount of the Bonds;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner in this Indenture provided and for the equal and ratable benefit of all of such Holders, subject to the provisions of this Indenture.

SECTION 6.09. Unconditional Right of Holders to Receive Principal and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Bond shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium, including any Redemption Premium, and interest on such Bond on the respective Scheduled Payment Dates expressed in such Bond and in this Indenture (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment and such rights shall not be impaired without the consent of such Holder.

SECTION 6.10. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 6.11. Remedies Not Exclusive.

(1) Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds in the last paragraph of Section 3.08, no remedy conferred upon or reserved to the Trustee or Holders under this Indenture is intended to be exclusive of any other remedy or remedies, but every such remedy shall be cumulative and in addition to every other remedy conferred in this Indenture or now or hereafter existing at law or in equity or by statute.

(2) The Trustee shall have, with respect to the Collateral in accordance with the Collateral Documents, in addition to any other remedies that may be available to it at law or in equity pursuant to this Indenture, all rights and remedies conferred upon a secured party under the UCC (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under Section 1.04(4) to exercise all the rights and remedies of the Holders under this Indenture).

SECTION 6.12. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing under this Indenture shall impair any such right or remedy or constitute a waiver of any Issuer Event of Default and/or Insurer Default, as applicable, or an acquiescence therein. Every right and remedy given by this Article Six or by law to the Trustee or to the Holders may be

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exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 6.13. Control of Proceedings.

The Holders of not less than 60% of the Remaining Principal Amount of the Outstanding Bonds shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, with respect to the Bonds (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under Section 1.04(4) to exercise the rights of the Holders in determining whether and how to exercise any such vote), provided that:

(a) such direction shall not be in conflict with any rule of law or with this Indenture and shall not involve the Trustee in personal liability or expense for which the Trustee has not received a reasonable indemnity, and

(b) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 6.14. Waiver of Past Defaults.

(1) The Holders of not less than 60% in Remaining Principal Amount of the Outstanding Bonds may on behalf of the Holders of all the Bonds, waive any past default hereunder and its consequences (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under Section 1.04(4) to exercise the rights of the Holders in determining whether so to waive), except a default:

(a) in the payment of the principal of or interest on any Bond, or

(b) in respect of a covenant or provision hereof which under

Article Ten cannot be modified or amended without the consent of the Holder of each Bond affected.

(2) Upon any such waiver, such default shall cease to exist, and any Issuer Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon. SECTION 6.15. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, having due regard to the merits and good faith of the claims or defenses made by such party litigant, provided that this Section 6.15 shall not be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Trustee.

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SECTION 6.16. Waiver of Usury, Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power in this Indenture granted to the Trustee, including the power to liquidate and apply the Collateral, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SEVEN

THE TRUSTEE

SECTION 7.01. Certain Duties and Responsibilities.

(1) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

(2) The Trustee shall keep appropriate records in connection with its obligations and duties arising under this Indenture in a commercially reasonable form and upon resignation or removal shall deliver such records or appropriate summaries thereof in the form and manner then kept to its successor or to the Company.

(3) All moneys and other property received by the Trustee under or pursuant to any provision of this Indenture shall be held in trust for the purposes of this Indenture and the Trustee (except as otherwise provided in this Indenture) shall have no right to set off or apply any such monies or other property against any obligation of the Company.

(4) If an Issuer Event of Default and/or an Insurer Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances

in the conduct of such Person's own affairs.

(5) Except during the continuance of an Issuer Event of Default and/or an Insurer Default:

(a) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee, it being expressly understood that the Trustee

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has no obligation to monitor compliance by the Company with any covenant or agreement contained or incorporated by reference in this Indenture (including, but not limited to Article Eleven hereof); and

(b) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and, if required by the terms of this Indenture, conforming to the requirements of this Indenture; provided, however, that in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(6) The Trustee may not be relieved from liability for its own gross negligent action, its own negligent failure to act or its own willful misconduct, except that:

(a) this paragraph does not limit the effect of paragraph (1) of this Section 7.01;

(b) the Trustee shall not be liable for any error of judgment made in good faith unless it is proved that the Trustee was negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a written direction received by it pursuant to Section 6.13; and

(d) anything in this Indenture to the contrary notwithstanding, in no event shall the Trustee (in any of its capacities hereunder) be liable under or in connection with this Indenture for indirect, special, incidental, punitive or consequential losses or damages of any kind whatsoever, including but not limited to lost profits, whether or not foreseeable, even if the Trustee (in any of its capacities hereunder) has been advised of the possibility thereof and regardless of the form of action in which such damages are sought.

SECTION 7.02. Notice of Defaults.

If an Issuer Event of Default occurs with respect to the Bonds, and an Authorized Officer of the Trustee in the Corporate Trust Office has actual knowledge of its occurrence and continuance, the Trustee shall give the Holders, with a copy to the Company and the Insurer, each promptly, notice of such default.

SECTION 7.03. Certain Rights of Trustee.

Subject to the provisions of Section 7.01:

(1) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

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(2) any request or direction of the Company mentioned in this Indenture shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Management Committee shall be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be in this Indenture specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officer's Certificate;

(4) the Trustee may consult with counsel of its choice and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) (a) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders or the Insurer pursuant to this Indenture, unless such Holders or the Insurer shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction, and the Insurer hereby agrees to indemnify the Trustee against the costs, expenses and liabilities which might be incurred by the Trustee in compliance with the requests or directions of the Insurer pursuant to this Indenture to exercise any of the rights or powers vested in the Trustee by this Indenture;

(b) the Collateral Agent shall be under no obligation to exercise any of the rights or powers vested in it by the Common Agreement at the request or direction of any of the Holders or the Insurer pursuant to the Common Agreement, unless such Holders or the Insurer shall have offered to the Collateral Agent security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction,

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the cost of the Company and shall incur no liability of any kind by reason of such inquiry or investigation;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(8) the Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by

this Indenture;

(9) the Trustee shall not be deemed to have notice of any Insurer Default or Issuer Event of Default unless an Authorized Officer of the Trustee has actual knowledge thereof or

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unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Bonds and this Indenture;

(10) the rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other person employed to act hereunder; and

(11) the Trustee may request that the Company deliver an Officer's Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officer's Certificate may be signed by any person authorized to sign an Officer's Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 7.04. Not Responsible for Recitals or Issuance of Bonds.

The recitals contained in this Indenture and in the Bonds, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Bonds. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Bonds or the proceeds thereof.

SECTION 7.05. May Hold Bonds.

The Trustee, any Authenticating Agent, any Paying Agent, any Bond Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Bonds and, subject to Section 7.13, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Bond Registrar or such other agent.

SECTION 7.06. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law or pursuant to the terms of this Indenture. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 7.07. Compensation and Reimbursement.

Subject to Article Six, the Company agrees:

(1) to pay to the Trustee from time to time such compensation as the Company and the Trustee shall agree in writing from time to time for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided in this Indenture, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its gross negligence, bad faith or willful misconduct; and

(3) to indemnify the Trustee and any predecessor trustee and their agents for, and to hold each of them harmless against, any and all loss, damage, claim, liability or expense, including taxes (other than taxes based upon, measured by or determined by the income of the Trustee), incurred without gross negligence, bad faith or willful misconduct on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

SECTION 7.08. Corporate Trustee Required; Eligibility.

There shall at all times be one (and only one) Trustee hereunder (except as may be required pursuant to Section 7.11), which shall be a Person that has a combined capital and surplus of at least \$50,000,000 and has its Corporate Trust Office in The City of New York, the State of New York. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of a supervising or examining authority, then for the purposes of this Section 7.08, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 7.08, it shall resign immediately in the manner and with the effect hereinafter specified in this Article Seven.

If the appointment of a separate or co-trustee is required pursuant to Section 7.11, such separate or co-trustee shall meet the requirements of the Trustee set forth in this Section 7.08.

SECTION 7.09. Resignation and Removal; Appointment of Successor.

(1) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article Seven shall become effective until the acceptance of appointment by the successor Trustee under Section 7.10.

(2) The Trustee may resign at any time by giving written notice thereof to the Company, with a copy to the Insurer. If an instrument of acceptance by a successor Trustee required by Section 7.10 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction at the cost of the Company for the appointment of a successor Trustee.

(3) The Trustee may be removed at any time by Act of the Holders of not less than 60% in Remaining Principal Amount of the Outstanding Bonds (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under Section 1.04(4) to exercise all the rights of the Holders under this Indenture), delivered to the Trustee and to the Company. If an instrument of acceptance by a successor Trustee shall not

have been delivered to the Trustee within 60 days after the giving of such notice of removal, the Trustee being removed may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Bonds of such series.

(4) If at any time:

(a) the Trustee shall cease to be eligible under Section 7.08 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(b) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee, or (ii) subject to Section 6.15, any Holder who has been a bona fide Holder of a Bond for at least six months, or the Insurer may, on behalf of such Holder and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(5) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company, by a Board Resolution, shall, with the consent of the Insurer (so long as no Insurer Default has occurred and is continuing), such consent not to be unreasonably withheld, promptly appoint a successor Trustee that shall comply with the applicable requirements of Section 7.10, it being agreed that the Insurer shall consent to the appointment of any successor Trustee that (i) is a Federal or U.S. state-chartered depository institution or trust company, (ii) has a combined capital and surplus of at least \$50,000,000 and has its corporate trust office in The City of New York, the State of New York, and (iii) the short-term and long-term unsecured debt obligations of which (or, in the case of a depository institution or trust company that is the principal subsidiary of a holding company, the short-term and long-term unsecured debt obligations of which) are rated P-1 and Aaa by Moody's, or A-1+ and AAA by S&P at the time any amounts are held on deposit therein. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of not less than 60% in Remaining Principal Amount of the Outstanding Bonds (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under Section 1.04(4) to exercise the rights of the Holders) delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 7.10, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 7.10, any Holder who has been a bona fide Holder of a Bond for at least six months, or the Insurer, as long as no Insurer Default has occurred and is continuing, may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(6) The Company shall give prompt notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders in the manner provided in Section 1.06 and the Insurer in the manner provided in Section 1.05 (so long as no Insurer Default

successor Trustee and the address of its Corporate Trust Office.

SECTION 7.10. Acceptance of Appointment by Successor.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company, the Insurer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges (subject to Section 7.07 of this Indenture), execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article Seven.

SECTION 7.11. Appointment of Co-Trustee.

It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of banking corporations or associations to transact business as trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture, and in particular in case of the enforcement thereof on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted or take any action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an individual or institution as a separate trustee or co-trustee. The following provisions of this Section are adopted to these ends.

(1) In the event that the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate trustee or co-trustee but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights and remedies, and only to the extent that the Trustee by the laws of any jurisdiction is incapable of exercising such powers, rights and remedies and every covenant and obligation necessary to the exercise thereof by such separate trustee or co-trustee shall run to and be enforceable by either of them.

(2) Should any instrument in writing from the Company be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Company at the expense of the Company; provided, that if an Issuer Event of Default shall have occurred and be continuing, if the Company does not execute any such instrument within fifteen

(15) days after request therefor, the Trustee shall be empowered as an attorney-in-fact for the Company to execute any such instrument in the Company's name and stead. In case any separate trustee or co-trustee or a successor to

either shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

SECTION 7.12. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article Seven, without the execution or filing of any paper or any further act on the part of any of the parties hereto. If any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

SECTION 7.13. Appointment of Authenticating Agent.

The Trustee may appoint an "Authenticating Agent" or Agents who shall be authorized to act on behalf of the Trustee to authenticate Bonds issued upon original issue and upon exchange, registration of transfer or partial redemption or pursuant to Section 3.08, and Bonds so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Bonds by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by federal or state authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 7.13, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 7.13, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section 7.13.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this

Section 7.13, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such

Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or if at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 7.13, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall give notice of such appointment in the manner provided in Section 1.06 to all Holders of Bonds and in the manner provided in Section 1.05 to the Insurer. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section 7.13.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment is made pursuant to this Section 7.13, the Bonds may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Bonds of the series designated therein referred to in the within-mentioned Indenture.

Dated:

THE BANK OF NEW YORK,
As Trustee

By: -----
As Authenticating Agent

By: -----
Authorized Signatory

ARTICLE EIGHT

HOLDERS LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 8.01. Company to Furnish Trustee Names and Addresses of Holders.

The Company will furnish or cause to be furnished to the Trustee to the extent such information is in the possession of the Company:

(1) quarterly, not later than ten days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of each series of Bonds as of the fifteenth day (whether or not a Business Day) prior to such date, and

(2) at such other times as the Trustee may reasonably request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

which list may exclude, in either case, any names and addresses received by the Trustee in its capacity as Bond Registrar.

SECTION 8.02. Preservation of Information; Communications to Holders.

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 8.01 and the names and addresses of Holders received by the Trustee in its capacity as Bond Registrar. The Trustee may destroy any list furnished to it as provided in Section 8.01 upon receipt of a new list so furnished.

Within five Business Days after the receipt by the Trustee of a written application by any three or more Holders or the Insurer stating that the applicants desire to communicate with other Holders with respect to their rights under the Indenture or the Bonds, accompanied by a copy of the form of proxy or other communication that such applicants propose to transmit, and by reasonable proof that each such applicant, except in the case of the Insurer, has owned a Bond for a period of at least six months preceding the date of such application, the Trustee shall deliver such proxy or other communication, at the expense of the applicants, to the Holders of the Bonds in the manner provided in Section 1.06. Every Holder of Bonds, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders.

SECTION 8.03. Reports by Company and Project Companies.

(1) So long as any of the Bonds are Outstanding, and the Company is not subject to Section 13 or 15(d) of the Exchange Act, upon request the Company shall provide to Holders or prospective purchasers designated by such Holders Rule 144A Information in order to permit compliance with Rule 144A under the Securities Act in connection with the resale of such Bond by such Holder.

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(2) In addition to the obligations set forth in paragraph (1), the Company shall deliver or cause to be delivered to the Trustee the financial statements and other information of the Company described in Section 2.3(a) of the Common Agreement.

(3) Each of the Project Companies shall deliver or cause to be delivered to the Trustee the financial statements and other information of such Project Company described in Section 3.2(c) of the Common Agreement.

(4) The Trustee shall promptly deliver or cause to be delivered the financial statements and information described in clauses (2) and (3) above to any Holder that requests such information from the Trustee.

(5) Delivery of the financial statements and other information referred to in this Section 8.03 and other statements, reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such statements, reports, information and documents shall not constitute constructive notice of any information contained therein, including the Company's compliance with any of its covenants hereunder as to which the Trustee is entitled to rely exclusively on the Officer's Certificate delivered to the Trustee pursuant to Section 11.04 of this Indenture.

ARTICLE NINE

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 9.01. Company May Consolidate, Etc., Only on Certain Terms.

Subject to the covenants set forth in Article Eleven of this Indenture, the Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company, or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

(1) immediately after giving effect to such transaction, no Issuer Event of Default, and no event which, after notice or lapse of time or both, would become an Issuer Event of Default, shall have happened and be continuing;

(2) if, as a result of any such consolidation or merger, or such conveyance, transfer or lease, any properties or assets of the Company other than the Collateral would become subject to a mortgage, pledge, lien, security interest or other encumbrance that would not be permitted by this Indenture or the other Financing Documents, the Company or such successor Person, as the case may be, shall take such steps as shall be necessary effectively to secure the Bonds of each series equally and ratably with (or prior to) all indebtedness secured thereby;

(3) the Company has delivered to the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and is continuing), an Officer's Certificate and an

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Opinion of Counsel, each stating that such consolidation or merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this Article Nine and that all conditions precedent in this Indenture provided for relating to such transaction have been complied with; and

(4) at any time when there is no Insurer Default that has occurred and is continuing, the Insurer has delivered to the Company, with a copy to the Trustee, a written consent of the Insurer, in its sole discretion, consenting to such transaction prior to the consummation thereof.

SECTION 9.02. Successor Substituted.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 9.01, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made, shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company in this Indenture, and thereafter, except in the case of a lease, the Company shall be relieved of all obligations and covenants under this Indenture, the Bonds and the other Financing Documents.

ARTICLE TEN

SUPPLEMENTAL INDENTURES

SECTION 10.01. Supplemental Indentures Without Consent of Holders.

Without the consent of Holders of the Bonds, but, so long as no Insurer Default has occurred and is continuing, with the consent of the Insurer, in its sole discretion, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in a form satisfactory to the Trustee, for any of the following purposes:

(1) to add to the covenants of the Company and the Project Companies for the benefit of the Holders of the Bonds (it being understood that all such additional covenants shall be for the equal benefit of all series of Bonds) or to surrender any right or power in this Indenture conferred upon the Company or any Project Company; or

(2) to add any additional Issuer Events of Default or Project Events of Default for the benefit of the Holders of the Bonds (it being understood that all such additional Issuer Events of Default or Project Events of Default shall be for the equal benefit of all series of Bonds); or

(3) to provide additional collateral for the Bonds; or

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(4) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Bonds; or

(5) to permit the registration of some or all of the Bonds under the Securities Act and the qualification of this Indenture under the U.S. Trust Indenture Act of 1939, as amended, or the listing or inclusion of any or all of the Bonds on any securities exchange or quotation system; or

(6) to cure any ambiguity, to correct or supplement any provision in this Indenture which may be defective or inconsistent with any other provision in this Indenture, or to make any other provisions with respect to matters or questions arising under this Indenture, which shall not be inconsistent with any of the provisions of this Indenture, provided that such action pursuant to this paragraph (6) shall not materially adversely affect the interests of the Holders of any series of Bonds or the Insurer; or

(7) to establish the terms of any series of Additional Bonds to be issued under this Indenture.

SECTION 10.02. Supplemental Indentures With Consent of Holders.

(1) Subject to paragraph (2) below, the Company, when authorized by a Board Resolution, and the Trustee may, (a) at any time when no Insurer Default has occurred and is continuing, with the consent of the Insurer, in its sole discretion, or (b) at any time when an Insurer Default has occurred and is continuing, with the consent of a majority of the Holders of the Outstanding Bonds affected thereby, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Bonds of such series under this Indenture.

(2) No such supplemental indenture entered into pursuant to this Section 10.02 shall, without the consent of the Holder of each Outstanding Bond affected thereby:

(a) change any Scheduled Payments with respect to such Bond,

(b) change any Scheduled Payment Date with respect to such Bond,

(c) change the Stated Maturity of such Bond,

(d) reduce the Remaining Principal Amount or the Optional Redemption Price of such Bond,

(e) reduce the rate of interest on such Bond,

(f) change the place of payment where, or the coin or currency in which, the principal of, the Optional Redemption Price, if any, or interest on such Bond is payable,

(g) impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date),

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(h) reduce the percentage in Remaining Principal Amount of the Bonds, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, and

(i) modify any of the provisions of this Section 10.02 or Section 6.14, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby; provided, however, that this paragraph shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section 10.02, or the deletion of this proviso, in accordance with the requirements of Sections 7.10 and 10.01(6).

It shall not be necessary for any Act of Holders under this Section 10.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 10.03. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Ten or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is permitted and does not violate, conflict with or cause a default under this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 10.04. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article Ten, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Bonds theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 10.05. Reference in Bonds to Supplemental Indentures.

Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Ten may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine,

new Bonds of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Bonds of such series.

ARTICLE ELEVEN

COVENANTS

The Company hereby makes for the benefit of the Holders of the Bonds of each series the covenants set forth in Sections 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9 and 2.11 and Article 4 of the Common Agreement in the same manner and to the same extent as if such covenants were expressly set forth in this Article Eleven of this Indenture. Each of the Guarantors hereby makes for the benefit of the Holders of the Bonds of each series the covenants set forth in Article 3 and Article 5 of the Common Agreement in the same manner and to the same extent as if such covenants were expressly set forth in this Article Eleven of this Indenture. In addition, the Company makes the following covenants for the benefit of the Holders of the Bonds.

SECTION 11.01. Payment of Principal, Optional Redemption Price and Interest.

The Company covenants and agrees for the benefit of each series of Bonds, that it will duly and punctually pay the principal, the Optional Redemption Price, if any, and interest then due and owing on the Bonds of that series in accordance with the terms of the Bonds of that series and this Indenture.

SECTION 11.02. Maintenance of Office or Agency.

The Company will maintain in The City of New York, New York, an office or agency where Bonds may be presented or surrendered for payment, where Bonds may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Bonds and this Indenture may be served. Unless and until the Trustee shall have received from the Company notice to the contrary, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands. The Company will give prompt written notice to the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and in continuing), of any change in the location of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and in continuing), with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside The City of New York, New York) where the Bonds may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in The City of New York, New York for such purposes. The Company shall give prompt written notice to the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and in continuing), of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 11.03. Money for Bond Payments to Be Held in Trust.

(1) The Company hereby appoints the Trustee as the initial Paying Agent for amounts due on the Bonds. The Company may appoint any other Person to act as Paying Agent to perform all functions of Paying Agent under this Indenture, as fully to all intents and purposes as though the Paying Agent has been expressly authorized to perform such functions.

Whenever the Company shall have one or more Paying Agents, the Trustee shall, prior to each due date of the principal of or any premium or interest on any Bonds, deposit with such Paying Agent a sum sufficient to pay such amount, such sum to be held in trust pursuant to this Indenture.

If the Company shall at any time act as its own Paying Agent with respect to the Bonds, it shall, on or before each due date of the principal of or any premium or interest on any of the Bonds, segregate and hold in trust for the benefit of the Persons entitled thereto the proceeds deposited with it pursuant to the preceding paragraph until such sums shall be paid to such Persons or otherwise disposed of as in this Indenture provided and will promptly notify the Trustee and the Insurer (so long as no Insurer Default has occurred and in continuing) of its action or failure so to act.

The Company shall cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section 11.03, that such Paying Agent will (i) comply with the provisions of this Indenture applicable to it as a Paying Agent; (ii) hold all sums held by it for the payment of amounts due with respect to the Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as in this Indenture provided and pay such sums to such Persons as in this Indenture provided; (iii) give the Trustee, with a copy to the Insurer (so long as no Insurer Default has occurred and in continuing), prompt notice of any default by the Company of which it has actual knowledge in the making of any payment required to be made with respect to the Bonds; and (iv) during the continuance of any default by the Company (or any other obligor upon the Bonds) in the making of any payment in respect of the Bonds, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent as such.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

(2) Any money deposited by the Company with the Trustee, or deposited with any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any Optional Redemption Price or interest on any Bonds and remaining unclaimed until the later of (i) two years after such principal, the Optional Redemption Price or interest has become due and payable and (ii) the termination of the Policy, whether on its terms or otherwise, shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Bond shall thereafter, as an unsecured creditor, look only to the

Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided however, that the Trustee or such Paying Agent before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 11.04. Statement by Officers as to Default.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officer's Certificate, stating, to the knowledge of the signers thereof, whether or not the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company is in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

SECTION 11.05. Waiver of Certain Covenants.

The Company or the Project Companies may omit in any particular instance to comply with any covenant or condition set forth in this Article 11 or incorporated by reference in this Indenture if before the time for such compliance the Holders of at least 60% in Remaining Principal Amount of the Outstanding Bonds shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under Section 1.04(4) to exercise the rights of the Holders in determining whether to make such waiver), but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company or any Project Company, as applicable, and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE TWELVE

REDEMPTION OF BONDS

SECTION 12.01. Right of Redemption.

(1) The Company may, at any time and from time to time, at its option, redeem the Outstanding Bonds (in whole or in part) at a redemption price (the "Optional Redemption Price") equal to 100% of the principal amount thereof, plus accrued and unpaid interest on the Bonds to the applicable Redemption Date. The Optional Redemption Price shall also include the applicable redemption premium described in clause (2) of this Section 12.01 (the "Redemption

Premium") in the case of any redemption of the Bonds by the Company other than in connection with a Permitted Peaker Buyout (Completion/Loss Event).

(2) The Redemption Premium with respect to a redemption of the Bonds in accordance with Section 12.01(1) on a Redemption Date that is on or before June 10, 2003 will be 7.25%. The Redemption Premium with respect to a redemption of the Bonds in accordance with Section 12.01(1) on a Redemption Date that is on or

after the dates specified below shall be as set forth opposite such dates.

For Redemption Dates On or After -----	Redemption Premium -----
June 11, 2003	6.81%
June 11, 2004	6.38%
June 11, 2005	5.94%
June 11, 2006	5.50%
June 11, 2007	5.06%
June 11, 2008	4.63%
June 11, 2009	4.19%
June 11, 2010	3.75%
June 11, 2011	3.31%
June 11, 2012	2.88%
June 11, 2013	2.44%
June 11, 2014	2.00%
June 11, 2015	1.56%
June 11, 2016	1.13%
June 11, 2017	0.69%
June 11, 2018	0.25%

SECTION 12.02. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Bonds pursuant to Section 12.01 shall be evidenced by a Board Resolution. In case of any such redemption at the election of the Company of less than 100% of the Remaining Principal Amount of the Outstanding Bonds, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Bonds to be redeemed.

SECTION 12.03. Notice of Redemption.

Notice of redemption shall be given by the Company by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Bonds to be redeemed, at its address appearing in the Bonds Register.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Optional Redemption Price,

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- (3) interest accrued to but not including the Redemption Date,

(4) if less than 100% of the Bonds are to be redeemed, the amount to be redeemed with respect to each Bond,

(5) that on the Redemption Date the Optional Redemption Price will become due and payable upon each such Bond to be redeemed and that interest thereon will cease to accrue on and after said date,

(6) the place or places where such Bonds are to be surrendered for payment of the Optional Redemption Price; and

(7) the CUSIP, ISIN and Common Code numbers of each of the Bonds to be redeemed.

Notice of redemption of Bonds to be redeemed at the election of the Company shall be given to the Holders by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 12.04. Deposit of Optional Redemption Price.

Prior to any Redemption Date, the Company shall deposit with the Trustee or the Paying Agent, as applicable, an amount of money sufficient to pay the Optional Redemption Price, and interest accrued to but not including the Redemption Date with respect to the Bonds which are subject to redemption on that date.

SECTION 12.05. Bonds Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Bonds so to be redeemed shall, on the Redemption Date, become due and payable at the Optional Redemption Price therein specified, together with interest accrued to but not including the Redemption Date, and from and after such date (unless the Company shall default in the payment of the Optional Redemption Price and accrued interest) all or the portion of the Bonds subject to redemption shall cease to bear interest. Upon surrender of any such Bond or portion thereof for redemption in accordance with said notice, such Bond or portion thereof shall be paid by the Company at the Optional Redemption Price, together with accrued interest to the Redemption Date; provided, however, that payments of interest whose applicable Scheduled Payment Date is on or prior to the Redemption Date shall be payable to the Holders of such Bonds, or one or more Predecessor Bonds, registered as such at the close of business on the relevant Regular Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the Remaining Principal Amount thereof shall, until paid, bear interest from the Redemption Date at the rate borne by the Bond.

SECTION 12.06. Bonds Redeemed in Part.

Any Bond that is to be redeemed only in part shall be surrendered at an office or agency of the Company designated for that purpose pursuant to Section 11.02 (with, if the Company or

the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Bond without service charge, a new Bond or Bonds, of any authorized denomination as requested by such Holder, in aggregate Initial Principal Amount equal to and in exchange for the Initial Principal Amount of the Bond so surrendered.

ARTICLE THIRTEEN

TERM AND TERMINATION

This Indenture and each other Financing Documents shall take effect on the date hereof and shall remain in effect, without prejudice to Section 12.17 or Section 12.18 of the Common Agreement, until the date that is 366 days after all of the Obligations shall have been irrevocably performed or satisfied in full in cash; provided that if NRG Energy shall have issued and provided the Reinstatement Guaranty, the Company and each Project Company shall be released from their respective obligations under the Financing Documents, and all Collateral shall be released from the Lien of the Collateral Documents, at the time such Reinstatement Guaranty is issued and provided by NRG Energy.

ARTICLE FOURTEEN

NOTICES BY TRUSTEE AND CALCULATION AGENT

SECTION 14.01. Notices by Trustee to Insurer of Payments on Policy.

Upon the receipt of the notice by the Trustee from the Depositary Agent pursuant to Section 4.2.4 of the Depositary Agreement, the Trustee shall deliver to the Insurer a Payment Notice in the form of Exhibit A to the Policy (a "Payment Notice"), appropriately completed and executed by the Trustee, before 10:00 a.m., New York City time on the Business Day immediately before the applicable Scheduled Payment Date. The Trustee shall present such Payment Notice to the Insurer by (i) delivery of the original Payment Notice to the Insurer at its address set forth in Section 1.04(c), or (ii) facsimile transmission of the original Payment Notice to the Insurer at the following facsimile number: (646) 658-5955 (or such other facsimile number that the Insurer may provide to the Trustee for this purpose by written notice). If presentation is made by facsimile transmission, the Trustee shall (x) simultaneously confirm transmission by telephone to the Insurer at the following telephone number: (646) 658-5900 (or such other telephone number that the Insurer may provide to the Trustee for this purpose by written notice), and (y) as soon as reasonably practicable, deliver the original Payment Notice to the Insurer at its address set forth in Section 1.05(c).

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SECTION 14.02. Notice by Calculation Agent to Swap Counterparty of Calculation of Three-Month USD-LIBOR-BBA.

Before 12:00 p.m., New York City time on each USD-LIBOR-BBA Determination Date, the Calculation Agent shall notify the Swap Counterparty of its calculation of Three-Month USD-LIBOR-BBA with respect to the Series A Bonds on such USD-LIBOR-BBA Determination Date by facsimile transmission to the Swap Counterparty at the following facsimile number: (212) 902-0996. The Trustee shall simultaneously confirm such facsimile transmission by telephone to the Swap Counterparty at the following telephone number: (212) 902-1000.

ARTICLE FIFTEEN

SCOPE OF LIABILITY

Except as set forth in this Article Fifteen, notwithstanding anything in this Indenture or the other Financing Documents to the contrary, the Holders shall have no claims with respect to the transactions contemplated by the Operative Documents against NRG Energy or any of its Affiliates (other than the Financing Parties), shareholders, officers, directors or employees (collectively, the "Nonrecourse Persons"); provided that the foregoing provision of this Article Fifteen shall not (a) constitute a waiver, release or discharge of any of the indebtedness, or of any of the terms, covenants, conditions, or provisions of this Indenture or any other Financing Document and the same shall continue (but without personal liability to any Nonrecourse Person except as provided herein and therein) until fully paid, discharged, observed, or performed, (b) limit or restrict the right of any Holder (or any assignee, beneficiary or successor to any of them) to name the Company, any Project Company or any other Person as a defendant in any action or suit for a judicial foreclosure or for the exercise of any other remedy under or with respect to this Indenture or any other Financing Document, or for injunction or specific performance, so long as no judgment in the nature of a deficiency judgment shall be enforced against any Nonrecourse Person, except as set forth in this Article Fifteen, (c) limit or restrict any right or remedy of any Holder (or any assignee or beneficiary thereof or successor thereto) with respect to, and each of the Nonrecourse Persons shall remain fully liable to the extent that such Person would otherwise be liable for its own actions with respect to, any fraud (which shall not include innocent or negligent misrepresentation), willful

misrepresentation, or misappropriation of Project Revenues or any other earnings, revenues, rents, issues, profits or proceeds from or of the Collateral that should or would have been paid as provided herein or paid or delivered to any Holder (or any assignee or beneficiary thereof or successor thereto) towards any payment required under this Indenture or any other Financing Document, (d) affect or diminish or constitute a waiver, release or discharge of any specific written obligation, covenant, or agreement made by any of the Nonrecourse Persons or any security granted by the Nonrecourse Persons in support of the obligations of such Persons under any Financing Document or as security for the obligations of the Company and the Project Companies, and (e) limit the liability of (i) any Person who is a party to any Project Document and has issued any certificate or other statement in connection therewith with respect to such liability as may arise by reason of the terms and conditions of such Project Document (but subject to any limitation of liability in such Project Document), certificate or statement, (ii) any Person rendering a legal opinion pursuant to this Indenture or (iii) NRG

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Energy or any Acceptable Assignee under or pursuant to the Contingent Guaranty Agreement, in each case under this clause (e) relating solely to such liability of such Person as may arise under such referenced agreement, instrument or opinion. The limitations on recourse set forth in this Article Fifteen shall survive the termination of this Indenture and the full payment and performance of the obligations hereunder and under the other Financing Documents.

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IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the day and year first above written.

NRG PEAKER FINANCE COMPANY LLC,
as Issuer

By: _____
Name:
Title:

BAYOU COVE PEAKING POWER, LLC,
as Guarantor

By: _____
Name:
Title:

BIG CAJUN I PEAKING POWER LLC,
as Guarantor

By: _____
Name:
Title:

NRG ROCKFORD LLC,

as Guarantor

By:

Name:
Title:

NRG ROCKFORD II LLC,
as Guarantor

By:

Name:
Title:

NRG STERLINGTON POWER LLC,
as Guarantor

By:

Name:
Title:

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XL CAPITAL ASSURANCE INC.,
as Insurer

By:

Name:
Title:

THE BANK OF NEW YORK,
as Trustee

By:

Name:
Title:

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EXHIBIT A-1

FORM OF SERIES A BOND

THE BONDS EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR, (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN

EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) BY SUBSEQUENT INVESTORS, AS SET FORTH IN (A) ABOVE, AND, IN ADDITION, TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501 OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND, IN THE CASE OF EACH OF CLAUSES (A) AND (B), (1) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN \$250,000 FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER AND, AS APPLICABLE, EACH ACCOUNT FOR WHICH SUCH PURCHASER IS ACTING, THAT (I) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT, (II) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER AND EACH SUCH ACCOUNT IS A QUALIFIED PURCHASER), (III) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER OR SUCH ACCOUNT IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (IV) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN \$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (V) IS NOT a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO PURCHASE OR FORCE THE RESALE OF ANY NOTES PREVIOUSLY TRANSFERRED TO NON-PERMITTED

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HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

THE BONDS EVIDENCED HEREBY MAY NOT BE OFFERED OR SOLD UNLESS: (1) THE TRANSFEREE REPRESENTS THAT IT IS A "QUALIFIED PURCHASER" (AS DEFINED IN 2(A)(51)(A) UNDER THE INVESTMENT COMPANY ACT, AS AMENDED); (2) THE TRANSFEROR REPRESENTS THAT PRIOR TO SUCH TRANSFER, THE TRANSFEROR HAS PROVIDED TO THE TRANSFEREE NOTICE OF THE TRANSFER RESTRICTIONS APPLICABLE TO THIS SECURITY; (3) BOTH THE TRANSFEROR AND THE TRANSFEREE ACKNOWLEDGE THAT THE ISSUER MAY REFUSE TO HONOR THE TRANSFER OF THE SECURITY IF IT DETERMINES IN ITS SOLE DISCRETION THAT THE TRANSFEREE IS NOT A QUALIFIED PURCHASER; AND (4) THE TRANSFEREE ACKNOWLEDGES THAT THE ISSUER HAS THE RIGHT TO FORCE THE REDEMPTION OR RESALE OF THE SECURITY HELD BY THE TRANSFEREE IF IT DETERMINES IN ITS SOLE DISCRETION THAT THE TRANSFEREE IS NOT A QUALIFIED PURCHASER.

[INSERT IN THE CASE OF A RESTRICTED GLOBAL BOND: THIS BOND IS A RESTRICTED GLOBAL BOND WITHIN THE MEANING OF THE INDENTURE REFERRED TO BELOW AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR ITS NOMINEE. THIS BOND MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A BOND REGISTERED, AND NO TRANSFER OF THIS BOND IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR ITS NOMINEE, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.]

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NRG PEAKER FINANCE COMPANY LLC

SERIES A FLOATING RATE SENIOR SECURED BONDS DUE JUNE 10, 2019

\$ _____

[INSERT FOR RESTRICTED GLOBAL BOND:

CUSIP: 62938R AA 5
ISIN: US62938RAA59]

[INSERT FOR REGULATION S CERTIFICATED BOND:

CUSIP: U6696W AA 0
ISIN: USU6696WAA00]

NO. [____]

NRG Peaker Finance Company LLC, a limited liability company duly organized and existing under the laws of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to [_____] or registered assigns, the principal sum of \$[_____] Dollars (or such lesser remaining principal amount as is reflected [in the attached Schedule of Exchanges of Interests in the Restricted Global Bond][in the books and records of the Trustee under the Indenture referred to below]), at the times and in the amounts pursuant to the amortization schedule set forth on the reverse hereof, and to pay interest thereon from and including June 18, 2002 to but excluding the first Scheduled Payment Date (as defined below), and for each successive period (each, an "Interest Period") from and including the last day of the preceding Interest Period to but excluding the following such Scheduled Payment Date, subject to certain exceptions set forth in the Indenture at a rate per annum equal to Three-Month USD-LIBOR-BBA per annum plus 1.07%, until the principal hereof is paid or made available for payment.

The interest so payable, and punctually paid or duly provided for, on any Scheduled Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Bond (or one or more Predecessor Bonds) is registered at the close of business on the Regular Record Date for such interest, which shall be the February 23 (or February 24 in the case of a leap year), May 26, August 26 or November 25 (whether or not a Business Day), as the case may be, next preceding such Scheduled Payment Date. The Scheduled Payment Dates shall be March 10, June 10, September 10 and December 10, commencing September 10, 2002.

If this Bond is issued in the form of a Global Bond, payments of the principal of and interest on this Bond shall be made in immediately available funds to the Depository. If this Bond is issued as a Regulation S Certificated Bond or a Restricted Certificated Bond, payment of the principal of and interest on this Bond will be made at the Corporate Trust Office of the Trustee in The City of New York, New York, maintained for such purpose, and at any other office or agency maintained by the Company for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Bonds Register. The "Stated Maturity" of this Bond will be June 10, 2019. Installments of principal of this Bond will be due and payable, in accordance with the Indenture referred to on the reverse hereof, in the manner described on the reverse hereof.

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This Bond is one of a duly authorized issue of Bonds of the Company, issued under an Indenture, dated as of June 18, 2002 (herein, as supplemented or amended from time to time, called the "Indenture", which term shall have the

meaning assigned to it in such instrument), among the Company, the Guarantors, XL Capital Assurance Inc. (the "Insurer") and The Bank of New York (herein called the "Trustee" which term includes any successor trustee under the Indenture) designated as its Series A Floating Rate Senior Secured Bonds due June 10, 2019 (herein called the "Series A Bonds"), in an initial aggregate Initial Principal Amount of \$325,000,000. The Company has also authorized the issuance from time to time under the Indenture of additional series of floating rate and fixed rate senior secured bonds as provided in the Indenture (collectively, the "Additional Bonds" and together with the Series A Bonds, the "Bonds").

Reference is hereby made to the Indenture and the Common Agreement for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Insurer, the Trustee and the Holders of the Bonds of each series. This Bond is subject to the provisions of the Indenture and the Common Agreement. To the extent any provision of this Bond conflicts with the express provisions of the Indenture or the Common Agreement, the provisions of the Indenture and the Common Agreement shall govern and be controlling.

Scheduled payments of principal and interest on the Bonds are guaranteed by the Insurer under the Financial Guaranty Insurance Policy No. CA00261A, dated as of June 18, 2002, issued for the benefit of the Trustee on behalf of the Holders of the Bonds (the "Insurance Policy").

The Company's obligations owed to the Secured Parties (as defined in the Common Agreement), including the Holders of the Bonds of each series, are secured by the lien created pursuant to the Issuer Collateral Documents (as defined in the Common Agreement) for the equal and ratable benefit of such Secured Parties on the Issuer Collateral (as defined in the Common Agreement).

Each of the Guarantors unconditionally and irrevocably guaranties the obligations and indebtedness of the Company in respect of the Guaranteed Obligations, including, without limitation, the payment of principal of and interest on the Bonds of each series when due and payable, which Guaranties (included in the Common Agreement and incorporated by reference in the Indenture) are secured by the lien created pursuant to the Project Company Collateral Documents (as defined in the Common Agreement) for the equal and ratable benefit of such Secured Parties on all the Project Company Collateral (as defined in the Common Agreement).

As set forth in Section 1.04(4) of the Indenture, so long as no Insurer Default has occurred and is continuing, the Insurer shall be entitled to exercise all rights and remedies with respect to the Bonds under the Indenture, including the right to vote on all matters presented to the Holders, the exercise of remedies and the waiver of breaches and defaults, except for (1) the rights of each of the Holders of the Bonds to approve any changes in the material terms of the Bonds as specified in Section 10.02(2) of the Indenture and (2) if an Insurer Default occurs and is continuing, all rights and remedies available to a specific series of Bonds shall be exercised directly by the Holders of such series of Bonds, and all rights and remedies available to Holders as a group under the Indenture shall be exercised by the Holders, acting as a group.

In the absence of any change in law occurring after the Issue Date that would render the treatment contemplated in this Section 3.13 inconsistent with the law, regulation, or any interpretation thereof, based upon representations from each Holder and beneficial owner of the

Bonds, as of the Issue Date and for so long as the Company has no reason to know and an Authorized Officer of the Trustee or any Paying Agent has not received actual notice that such representations by Holders and beneficial owners of at least 75% of the aggregate principal amount of the Bonds are false or unreliable, the Company, the Trustee and any Paying Agent agree to treat the

Bonds for all United States federal tax purposes as investment securities and not as an extension of credit pursuant to a loan agreement; provided, however, that the Company, the Trustee and any Paying Agent shall not be obligated under this covenant with respect to any Bonds held by a Holder or beneficial owner with respect to which the Company has reason to know or an Authorized Officer of the Trustee or any Paying Agent has received actual notice that such representations made by such Holder or beneficial owner, as the case may be, as of the Issue Date are false or unreliable.

By accepting a Bond or a beneficial interest therein, each Holder and beneficial owner agrees to the treatment described in the preceding paragraph and covenants to take no action inconsistent with such treatment unless otherwise notified by the Company.

Reference is hereby made to the further provisions of this Bond set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place. Capitalized terms used and not otherwise defined herein are defined in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

NRG PEAKER FINANCE COMPANY LLC

By: _____

This is one of the Bonds of the series designated therein referred to in the within-mentioned Indenture.

Dated:

THE BANK OF NEW YORK,
as Trustee

By: _____
Authorized Signatory

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Reverse of Bond.

The interest on this Bond shall be payable quarterly in arrears (including interest on any interest that is not paid when due), at a rate per annum equal to Three-Month USD-LIBOR-BBA (as defined below and in the Indenture) plus 1.07%. The interest shall be calculated on the basis of a 360-day year and the actual number of days elapsed.

"Three-Month USD-LIBOR-BBA" means, for each Interest Period, the rate for deposits in U.S. dollars for a period of three months, commencing on the first day of such Interest Period and in an amount that is representative for a single transaction in that market, at that time, that appears on Telerate Page 3750 as of 11:00 a.m., London time, on the USD-LIBOR-BBA Determination Date with respect to such Interest Period. If such rate does not appear on the Telerate Page 3750, then Three-Month USD-LIBOR-BBA for the relevant Interest Period will be determined on the basis of the rates at which deposits in U.S. dollars are offered by the Reference Banks at approximately 11:00 a.m., London time, on the USD-LIBOR-BBA Determination Date with respect to such Interest Period to prime banks in the London interbank market for a period of three months commencing on the first day of such Interest Period and in an amount that is representative for a single transaction in that market at that time, assuming an actual/360 day count basis. The Calculation Agent shall request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the rate for that Interest Period will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Interest Period will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the first day of such Interest Period for loans in U.S. dollars to leading European banks for a period of three months commencing on the first day of such Interest Period and in an amount that is representative for a single transaction in that market at that time. If the Calculation Agent is unable to obtain rate quotations for such loans, the rate for that USD-LIBOR-BBA Determination Date shall be Three-Month USD-LIBOR-BBA as calculated for the immediately preceding quarterly period. Notwithstanding the foregoing, "Three-Month USD-LIBOR-BBA" with respect to the first Interest Period will be 1.87938%.

Three-Month USD-LIBOR-BBA will be determined by The Bank of New York, as Calculation Agent, or any successor calculation agent as determined by the Company.

The Company shall repay the principal amount of the Series A Bonds in annual installments, commencing on December 10, 2002 and continuing until the Stated Maturity. The aggregate amount of principal of the Series A Bonds to be repaid in each year shall be as follows:

Date ----	Principal Amount (\$) -----
December 10, 2002	5,638,000
December 10, 2003	7,989,000
December 10, 2004	10,497,000
December 10, 2005	4,312,000
December 10, 2006	6,768,000
December 10, 2007	11,164,000
December 10, 2008	12,903,000
December 10, 2009	14,758,000
December 10, 2010	19,889,000
December 10, 2011	21,232,000

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Date ----	Principal Amount (\$) -----
December 10, 2012	21,680,000

December 10, 2013	23,143,000
December 10, 2014	28,840,000
December 10, 2015	30,787,000
December 10, 2016	32,865,000
December 10, 2017	35,083,000
December 10, 2018	18,726,000
June 10, 2019	18,702,600

Each annual scheduled repayment of principal will be made on December 10 of the relevant year (except that the final repayment of principal will be made on June 10, 2019), together with the payment of interest due on that date, to the person whose name this Bond is registered on the Regular Record Date before the payment date. The final annual scheduled repayment of principal will be made only against surrender of the Bond to the Trustee.

The Bonds are subject to redemption, at any time and from time to time, as a whole or in part, at the election of the Company, at the Optional Redemption Price (as defined below), payable in cash. The redemption price for the Series A Bonds (the "Optional Redemption Price"), payable in cash, shall equal 100% of the outstanding principal amount of such Bonds, plus accrued and unpaid interest on the Bonds to the applicable Redemption Date. The Optional Redemption Price shall also include the applicable redemption premium described below (the "Redemption Premium") in the case of any redemption other than a redemption of the Bonds by the Company of the Bonds by the Company in connection with a Permitted Peaker Buyout (Completion/Loss Event).

The Redemption Premium with respect to a redemption of the Bonds on a Redemption Date that is on or before June 10, 2003 will be 7.25%. The Redemption Premium with respect to a redemption of the Bonds on a Redemption Date that is on or after the dates specified below shall be as set forth opposite such dates.

For Redemption Dates On or After -----	Redemption Premium -----
June 11, 2003	6.81%
June 11, 2004	6.38%
June 11, 2005	5.94%
June 11, 2006	5.50%
June 11, 2007	5.06%
June 11, 2008	4.63%
June 11, 2009	4.19%
June 11, 2010	3.75%
June 11, 2011	3.31%
June 11, 2012	2.88%
June 11, 2013	2.44%
June 11, 2014	2.00%
June 11, 2015	1.56%
June 11, 2016	1.13%
June 11, 2017	0.69%
June 11, 2018	0.25%

Payment of the Optional Redemption Price shall include interest accrued to but not including the Redemption Date, but interest installments for a Scheduled Payment Date prior to such Redemption Date will be payable to the Holders of such series of Bonds, or one or more Predecessor Bonds, of record at the close of business on the relevant Regular Record Dates referred to on the

face hereof, all as provided in the Indenture.

In the event of a partial redemption, the amount to be redeemed will be allocated pro rata as determined by the then outstanding principal amount among all the Outstanding Bonds at the Redemption Date. The amount to be redeemed that is allocated to the Series A Bonds will be further allocated pro rata as determined by the then outstanding principal amount among all of the Outstanding Series A Bonds.

In all cases of redemption, the redemption price with respect to each Bond to be redeemed will not be less than 100% of the outstanding principal amount of such Bond at the time of redemption.

In the event of redemption of this Series A Bond in part only, a new Series A Bond or Bonds for the Initial Principal Amount will be issued in the name of the Holder hereof upon the cancellation hereof, notwithstanding that the Remaining Principal Amount of such Bond or Bonds may be less than such Initial Principal Amount.

The Indenture permits the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Bonds under the Indenture at any time by the Company and the Trustee, with the consent of the Insurer, in its sole discretion (so long as no Insurer Default has occurred and is continuing). For certain material changes to the terms of the Bonds, as specified in Section 10.02(2) of the Indenture, the consent of each affected Holder is required. For changes to the terms of the Bonds other than those specified in Sections 10.01 or 10.02(2) of the Indenture, the consent of a majority of the affected Holders is required if an Insurer Default has occurred and is continuing.

The Indenture also contains provisions permitting the Holders of not less than 60% in Remaining Principal Amount of the Outstanding Bonds, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under the Indenture to exercise the rights of the Holders in determining whether and how to exercise any such vote).

Any such consent or waiver shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Bond issued upon the registration or transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

No reference herein to the Indenture and no provision of this Bond or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, and the Optional Redemption Price, if any, and interest on this Bond at the times, place and rate, and in the coin and currency, as prescribed in the Indenture.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Bonds Register, upon surrender of this Bond for registration of transfer at the office or agency of the Company in any place where the principal of

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and interest on this Bond are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Bonds Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds, of authorized denominations and for the same aggregate Initial Principal Amount, will be issued to the designated transferee or transferees.

The Bonds are issuable only in registered form without coupons in Initial Principal Amounts of denominations of \$250,000 and any integral

multiples of \$1,000 in excess thereof. As provided in the Indenture and subject to certain limitations therein set forth, Bonds are exchangeable for a like aggregate Initial Principal Amount of Bonds of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Bond for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Bond is registered as the owner hereof for all purposes, whether or not this Bond be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

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[INSERT IN THE CASE OF A RESTRICTED GLOBAL BOND]

Schedule of Exchanges of Interests
in the Restricted Global Bond

The following exchanges of a part of this Restricted Global Bond for an interest in another Restricted Global Bond or for a Restricted Certificated Bond or a Regulation S Global Bond, or exchanges of a part of a Restricted Certificated Bond or a Regulation S Global Bond for an interest in this Restricted Global Bond, have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Restricted Global Bond	Amount of increase in Principal Amount of this Restricted Global Bond	Principal Amount of this Restricted Global Bond following such decrease (or increase)	Signature of authorized officer of Trustee
-----	-----	-----	-----	-----

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EXHIBIT A-2

FORM OF ADDITIONAL FIXED RATE SENIOR SECURED BOND

THE BONDS EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) BY THE INITIAL INVESTOR, (1) TO A PERSON WHO THE TRANSFEROR REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN

EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) BY SUBSEQUENT INVESTORS, AS SET FORTH IN (A) ABOVE, AND, IN ADDITION, TO AN INSTITUTIONAL INVESTOR THAT IS AN ACCREDITED INVESTOR WITHIN THE MEANING OF RULE 501 OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND, IN THE CASE OF EACH OF CLAUSES (A) AND (B), (1) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND (2) IN A PRINCIPAL AMOUNT OF NOT LESS THAN \$250,000 FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING, TO A PURCHASER AND, AS APPLICABLE, EACH ACCOUNT FOR WHICH SUCH PURCHASER IS ACTING, THAT (I) IS A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 3(C)(7) OF THE INVESTMENT COMPANY ACT, (II) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER (EXCEPT WHEN EACH BENEFICIAL OWNER OF THE PURCHASER AND EACH SUCH ACCOUNT IS A QUALIFIED PURCHASER), (III) HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS WHEN THE PURCHASER OR SUCH ACCOUNT IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE APRIL 30, 1996, (IV) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN \$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS AND (V) IS NOT a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO ITS TRANSFEREE. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO PURCHASE OR FORCE THE RESALE OF ANY NOTES PREVIOUSLY TRANSFERRED TO NON-PERMITTED

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HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

THE BONDS EVIDENCED HEREBY MAY NOT BE OFFERED OR SOLD UNLESS: (1) THE TRANSFEREE REPRESENTS THAT IT IS A "QUALIFIED PURCHASER" (AS DEFINED IN 2(A)(51)(A) UNDER THE INVESTMENT COMPANY ACT, AS AMENDED); (2) THE TRANSFEROR REPRESENTS THAT PRIOR TO SUCH TRANSFER, THE TRANSFEROR HAS PROVIDED TO THE TRANSFEREE NOTICE OF THE TRANSFER RESTRICTIONS APPLICABLE TO THIS SECURITY; (3) BOTH THE TRANSFEROR AND THE TRANSFEREE ACKNOWLEDGE THAT THE ISSUER MAY REFUSE TO HONOR THE TRANSFER OF THE SECURITY IF IT DETERMINES IN ITS SOLE DISCRETION THAT THE TRANSFEREE IS NOT A QUALIFIED PURCHASER; AND (4) THE TRANSFEREE ACKNOWLEDGES THAT THE ISSUER HAS THE RIGHT TO FORCE THE REDEMPTION OR RESALE OF THE SECURITY HELD BY THE TRANSFEREE IF IT DETERMINES IN ITS SOLE DISCRETION THAT THE TRANSFEREE IS NOT A QUALIFIED PURCHASER.

[INSERT IN THE CASE OF A RESTRICTED GLOBAL BOND: THIS BOND IS A RESTRICTED GLOBAL BOND WITHIN THE MEANING OF THE INDENTURE REFERRED TO BELOW AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR ITS NOMINEE. THIS BOND MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A BOND REGISTERED, AND NO TRANSFER OF THIS BOND IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR ITS NOMINEE, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.]

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NRG PEAKER FINANCE COMPANY LLC

[__]% SERIES [__] SENIOR SECURED BONDS DUE [_____]

\$_[_____]

CUSIP:

ISIN:

NO. [___]

NRG Peaker Finance Company LLC, a limited liability company duly organized and existing under the laws of Delaware (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to [_____] , or registered assigns, the principal sum of \$ [_____] Dollars (or such lesser remaining principal amount as is reflected [in the attached Schedule of Exchanges of Interests in the Restricted Global Bond][in the books and records of the Trustee under the Indenture referred to below]), at the times and in the amounts pursuant to the amortization schedule set forth on the reverse hereof, and to pay interest thereon from and including [_____] to but excluding the first Scheduled Payment Date (as defined below), and for each successive period (each, an "Interest Period") from and including the last day of the preceding Interest Period to but excluding the following such Scheduled Payment Date, subject to certain exceptions set forth in the Indenture at the rate of [__]% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Scheduled Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Bond (or one or more Predecessor Bonds) is registered at the close of business on the Regular Record Date for such interest, which shall be the [_____] and [_____] (whether or not a Business Day), as the case may be, next preceding such Scheduled Payment Date. The Scheduled Payment Dates shall be [_____] and [_____] , commencing [_____].

If this Bond is issued in the form of a Global Bond, payments of the principal of and interest on this Bond shall be made in immediately available funds to the Depository. If this Bond is issued as a Regulation S Certificated Bond or a Restricted Certificated Bond, payment of the principal of and interest on this Bond will be made at the Corporate Trust Office of the Trustee in The City of New York, New York, maintained for such purpose, and at any other office or agency maintained by the Company for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Bonds Register.

The "Stated Maturity" of this Bond will be [_____] . Installments of principal of this Bond will be due and payable, in accordance with the Indenture referred to on the reverse hereof, in the manner described on the reverse hereof.

This Bond is one of a duly authorized issue of additional bonds of the Company, issued under an Indenture, dated as of June 18, 2002, as supplemented by the [First] Supplemental Indenture dated as of [_____] (herein, as supplemented or amended from time to time, called the "Indenture", which term shall have the meaning assigned to it in such

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instrument), among the Company, the Guarantors, XL Capital Assurance Inc. (the "Insurer") and The Bank of New York (herein called the "Trustee" which term includes any successor trustee under the Indenture) designated as its [__]% Fixed Rate Senior Secured Bonds due [_____] , limited in aggregate Initial Principal Amount to \$[_____] (herein called the "[__]% Fixed Rate Bonds").

On June 18, 2002, the Company issued under the Indenture its Series A Floating Rate Senior Secured Bonds due 2019 (the "Series A Bonds"), and the Company has also authorized the issuance from time to time under the Indenture of additional series of floating rate and fixed rate senior secured bonds as provided in the Indenture (collectively, the "Additional Bonds" and together with the [__]% Fixed Rate Bonds and the Series A Bonds, the "Bonds").

Reference is hereby made to the Indenture and the Common Agreement for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Insurer, the Trustee and the Holders of the Bonds of each series. This Bond is subject to the provisions of the Indenture and the Common Agreement. To the extent any provision of this Bond conflicts with the express provisions of the Indenture or the Common Agreement, the provisions of the Indenture and the Common Agreement shall govern and be controlling.

Scheduled payments of principal and interest on the Bonds are guaranteed by the Insurer under the Financial Guaranty Insurance Policy No. CA00261A, dated as of June 18, 2002, issued for the benefit of the Trustee on behalf of the Holders of the Bonds (the "Insurance Policy").

The Company's obligations owed to the Secured Parties (as defined in the Common Agreement), including the Holders of the Bonds of each series, are secured by the lien created pursuant to the Issuer Collateral Documents (as defined in the Common Agreement) for the equal and ratable benefit of such Secured Parties on the Issuer Collateral (as defined in the Common Agreement).

Each of the Guarantors unconditionally and irrevocably guaranties the obligations and indebtedness of the Company in respect of the Guaranteed Obligations, including, without limitation, the payment of principal of and interest on the Bonds of each series when due and payable, which Guaranties (included in the Common Agreement and incorporated by reference in the Indenture) are secured by the lien created pursuant to the Project Company Collateral Documents (as defined in the Common Agreement) for the equal and ratable benefit of such Secured Parties on all the Project Company Collateral (as defined in the Common Agreement).

As set forth in Section 1.04(4) of the Indenture, so long as no Insurer Default has occurred and is continuing, the Insurer shall be entitled to exercise all rights and remedies with respect to the Bonds under the Indenture, including the right to vote on all matters presented to the Holders, the exercise of remedies and the waiver of breaches and defaults, except for (1) the rights of each of the Holders of the Bonds to approve any changes in the material terms of the Bonds as specified in Section 10.02(2) of the Indenture and (2) if an Insurer Default occurs and is continuing, all rights and remedies available to a specific series of Bonds shall be exercised directly by the Holders of such series of Bonds, and all rights and remedies available to Holders as a group under the Indenture shall be exercised by the Holders, acting as a group.

In the absence of any change in law occurring after the Issue Date that would render the treatment contemplated in this Section 3.13 inconsistent with the law, regulation, or any interpretation thereof, based upon representations from each Holder and beneficial owner of the Bonds, as of the Issue Date and for so long as the Company has no reason to know and an Authorized Officer of the Trustee or any Paying Agent has not received actual notice that such

representations by Holders and beneficial owners of at least 75% of the aggregate principal amount of the Bonds are false or unreliable, the Company, the Trustee and any Paying Agent agree to treat the Bonds for all United States federal tax purposes as investment securities and not as an extension of credit pursuant to a loan agreement; provided, however, that the Company, the Trustee and any Paying Agent shall not be obligated under this covenant with respect to

any Bonds held by a Holder or beneficial owner with respect to which the Company has reason to know or an Authorized Officer of the Trustee or any Paying Agent has received actual notice that such representations made by such Holder or beneficial owner, as the case may be, as of the Issue Date are false or unreliable.

By accepting a Bond or a beneficial interest therein, each Holder and beneficial owner agrees to the treatment described in the preceding paragraph and covenants to take no action inconsistent with such treatment unless otherwise notified by the Company.

Reference is hereby made to the further provisions of this Bond set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place. Capitalized terms used and not otherwise defined herein are defined in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

NRG PEAKER FINANCE COMPANY LLC

By: _____

This is one of the Bonds of the series designated therein referred to in the within-mentioned Indenture.

Dated:

THE BANK OF NEW YORK,
as Trustee

By: _____
Authorized Signatory

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Reverse of Bond.

The interest on this Bond shall be payable semi-annually in arrears (including interest on any interest that is not paid when due), at a fixed rate of [__]% per annum. The interest shall be calculated on the basis of a 360-day year and 30-day month. Interest will be paid on an unadjusted basis, with semi-annual payments calculated on the basis of 180 days per semi-annual period and 30-day months.

The Company shall repay the principal amount of the [__]% Fixed Rate Bonds in annual installments, commencing on [_____] and continuing until the

Stated Maturity. The aggregate amount of principal of the [__]% Fixed Rate Bonds to be repaid in each year shall be as follows:

Year	Principal Amount	Year	Principal Amount
----	-----	----	-----
	\$		\$

Each annual scheduled repayment of principal will be made on [_____] of the relevant year, together with the payment of interest due on that date, to the person whose name this Bond is registered on the Regular Record Date before the payment date. The final annual scheduled repayment of principal will be made only against surrender of the Bond to the Trustee.

The Bonds are subject to redemption, at any time and from time to time, as a whole or in part, at the election of the Company, at the [__]% Fixed Rate Redemption Price (as defined below), payable in cash. The redemption price for the [__]% Fixed Rate Bonds, payable in cash, shall equal the sum of present values of the Scheduled Payments of principal and interest remaining outstanding at the Redemption Date until maturity, plus the interest accrued to but not including the applicable Redemption Date (the "[__]% Fixed Rate Redemption Price"). Payment of the [__]% Fixed Rate Redemption Price shall include interest accrued to but not including the Redemption Date, but interest installments for a Scheduled Payment Date prior to such Redemption Date will be payable to the Holders of such series of Bonds, or one or more Predecessor Bonds, of record at the close of business on the relevant Regular Record Dates referred to on the face hereof, all as provided in the Indenture.

The present value shall be calculated by the Calculation Agent by discounting the remaining principal and interest payments to maturity on a semi-annual basis assuming a 365-day year and an actual day count. The discount rate used to determine the [__]% Fixed Rate Redemption Price shall be equal to the Treasury Yield (as defined below), plus [__]%.

"Treasury Yield" means the yield on treasury securities at a constant maturity corresponding to the remaining average life (as of the Redemption Date, rounded to the nearest month) to the stated maturity of the principal being redeemed. For purposes of this definition, the Treasury Yield shall be equal to the arithmetic mean of the yields published in the Statistical

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Release (as defined below) under the heading "Week Ending" for "U.S. Government Securities-Treasury Constant Maturities" with a maturity equal to such remaining life; provided, that if no published maturity exactly corresponds with such remaining life, then the Treasury Yield shall be interpolated or extrapolated on a straight-line basis from the arithmetic means of the yields for the next shortest and next longest published maturities. For the purposes of calculation of the Treasury Yield, the most recent Statistical Release published prior to the Redemption Date shall be used. If the format or the content of the Statistical Release changes in a manner that precludes determination of the Treasury Yield in the above manner, then the Treasury Yield shall be determined in a manner that most closely approximates the above manner, as reasonably determined by the Calculation Agent.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which reports yields on actively traded United States government securities adjusted to constant maturities, or,

if such statistical release is not published at the time of any determination, then such other reasonably comparable statistical release which shall be designated by the Calculation Agent.]

In the event of a partial redemption, the amount to be redeemed will be allocated pro rata as determined by the then outstanding principal amount among all the Outstanding Bonds at the Redemption Date. The amount to be redeemed that is allocated to the [__]% Fixed Rate Bonds will be further allocated pro rata as determined by the then outstanding principal amount among all of the Outstanding [__]% Fixed Rate Bonds.

In all cases of redemption, the redemption price with respect to each Bond to be redeemed will not be less than 100% of the outstanding principal amount of such Bond at the time of redemption.

In the event of redemption of this [__]% Fixed Rate Bond in part only, a new [__]% Fixed Rate Bond or Bonds for the Initial Principal Amount will be issued in the name of the Holder hereof upon the cancellation hereof, notwithstanding that the Remaining Principal Amount of such Bond or Bonds may be less than such Initial Principal Amount.

The Indenture permits the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Bonds under the Indenture at any time by the Company and the Trustee, with the consent of the Insurer, in its sole discretion (so long as no Insurer Default has occurred and is continuing). For certain material changes to the terms of the Bonds, as specified in Section 10.02(2) of the Indenture, the consent of each affected Holder is required. For changes to the terms of the Bonds other than those specified in Sections 10.01 or 10.02(2) of the Indenture, the consent of a majority of the affected Holders is required if an Insurer Default has occurred and is continuing.

The Indenture also contains provisions permitting the Holders of not less than 60% in Remaining Principal Amount of the Outstanding Bonds, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences (it being understood that, so long as no Insurer Default has occurred and is continuing, the Insurer shall have the exclusive right under the Indenture to exercise the rights of the Holders in determining whether and how to exercise any such vote).

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Any such consent or waiver shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Bond issued upon the registration or transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

No reference herein to the Indenture and no provision of this Bond or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, and the [__]% Fixed Rate Redemption Price, if any, and interest on this Bond at the times, place and rate, and in the coin and currency, as prescribed in the Indenture.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Bonds Register, upon surrender of this Bond for registration of transfer at the office or agency of the Company in any place where the principal of and interest on this Bond are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Bonds Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds, of authorized denominations and for the same aggregate Initial Principal Amount, will be issued to the designated transferee or transferees.

The Bonds are issuable only in registered form without coupons in

Initial Principal Amounts of denominations of \$250,000 and any integral multiples of \$1,000 in excess thereof. As provided in the Indenture and subject to certain limitations therein set forth, Bonds are exchangeable for a like aggregate Initial Principal Amount of Bonds of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Bond for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Bond is registered as the owner hereof for all purposes, whether or not this Bond be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

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[INSERT IN THE CASE OF A RESTRICTED GLOBAL BOND]

Schedule of Exchanges of Interests
in the Restricted Global Bond

The following exchanges of a part of this Restricted Global Bond for an interest in another Restricted Global Bond or for a Restricted Certificated Bond or a Regulation S Global Bond, or exchanges of a part of a Restricted Certificated Bond or a Regulation S Global Bond for an interest in this Restricted Global Bond, have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Restricted Global Bond	Amount of increase in Principal Amount of this Restricted Global Bond	Principal Amount of this Restricted Global Bond following such decrease (or increase)	Signature of authorized officer of Trustee
-----	-----	-----	-----	-----

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EXHIBIT B

FORM OF TRANSFER CERTIFICATE FOR RESTRICTED GLOBAL BOND,
REGULATION S CERTIFICATED BOND OR RESTRICTED CERTIFICATED BOND
(FOR TRANSFERS PURSUANT TO SECTION 3.06(1) OF THE INDENTURE)

The Bank of New York,
as Trustee
101 Barclay Street
New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior
Secured Bonds due June 10, 2019] of NRG Peaker Finance

Company LLC (the "Bonds")

Reference is made to the Indenture, dated as of June 18, 2002 (the "Indenture"), among NRG Peaker Finance Company LLC (the "Company"), XL Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC and NRG Sterlington Power LLC, as guarantors, and The Bank of New York as Trustee (the "Trustee"). Capitalized terms used herein and defined in the Indenture or in Regulation S or Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") are used herein as so defined.

This certificate relates to U.S.\$_____ initial principal amount of Bonds presented or surrendered on the date hereof (the "Surrendered Bonds") which are registered in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such Surrendered Bonds registered in the name of a Person (the "Transferee") other than the Transferor.

In connection with such request and in respect of such Surrendered Bonds, the Transferor does hereby certify that:

A. It is an initial investor who purchased the Bonds from the initial purchasers pursuant to, the Purchase Agreement, dated June 14, 2002, among the Company, the Guarantors and the initial purchaser named therein and that the Surrendered Bonds are being transferred:

1. To a person who the Transferor reasonably believes is a qualified purchaser within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended; AND
2. (a) To a person who the Transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A;

(b) In an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act; OR

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(c) Pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder.

OR

B. If the Transferor is a subsequent investor, that the Surrendered Bonds are being transferred:

1. To a person who the Transferor reasonably believes is a qualified purchaser within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended; AND
2. (a) To a person who the Transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A;

(b) In an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act;

(c) Pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder; OR

(d) To an institutional investor that is an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act pursuant to an exemption from registration under the Securities Act.

The Transferor understands that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, the Transferor irrevocably authorizes you to produce this certificate to any interested party in such proceeding.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company and Goldman Sachs International as the initial purchaser of the Bonds.

Dated:

(Print the name of the Transferor, as such term is defined in the second paragraph of this certificate.)

By: -----

Name:
Title:
(If the Transferor is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Transferor must be stated.)

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EXHIBIT C-1

FORM OF CERTIFICATE FOR TRANSFERS FROM
[RESTRICTED GLOBAL BOND][RESTRICTED CERTIFICATED BOND]
TO REGULATION S CERTIFICATED BOND

(FOR TRANSFERS PURSUANT TO SECTION 3.07(2)[(B)][(D)]
OF THE INDENTURE)

The Bank of New York,
as Trustee
101 Barclay Street
New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior Secured Bonds due , 2019] of NRG Peaker Finance Company LLC (the "Bonds")

Reference is made to the Indenture, dated as of June 18, 2002 (the "Indenture"), among NRG Peaker Finance Company LLC (the "Company"), XL Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I

Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC, and NRG Sterlington Power LLC, as guarantors, and The Bank of New York, as Trustee (the "Trustee"). Capitalized terms used herein and defined in the Indenture or in Regulation S or Rule 144 under the U.S. Securities Act of 1933, as amended (the "Securities Act") are used herein as so defined.

This certificate relates to U.S.\$_____ aggregate initial principal amount of Bonds which are [evidenced by the Restricted Global Bond (CUSIP No. _____; ISIN _____) and held with the Depository] [held in the definitive form of a Restricted Certificated Bond (CUSIP No. _____; ISIN _____) and registered] in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such [beneficial interest in the Bonds][Bonds] to a Person who will take delivery thereof in the form of an equal aggregate initial principal amount of Bonds held in the definitive form of a Regulation S Certificated Bond (CUSIP No. _____; ISIN _____).

In connection with such request and in respect of such Bonds, the Transferor does hereby certify that:

- (a) with respect to transfers made in reliance on Regulation S under the Securities Act:
 - (i) the offer of the Bonds was not made to a person in the United States;
 - (ii) either:
 - 1) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any person acting on its behalf reasonably believed that the transferee was outside the United States, or
 - 2) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither the Transferor nor any person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;
 - (iii) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or 904(b) of Regulation S, as applicable; and
 - (iv) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; OR
- (b) with respect to transfers made in reliance on Rule 144 under the Securities Act, the Bonds are being transferred in a transaction permitted by Rule 144 under the Securities Act.

The Transferor also certifies that such transfer is being made to a person who the Transferor reasonably believes is also a qualified purchaser within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize

you to produce this certificate to any interested party in such proceeding.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company and Goldman Sachs International as the initial purchaser of the Bonds.

Dated:

(Print the name of the Transferor, as such term is defined in the second paragraph of this certificate.)

By: _____

Name:

Title:

(If the Transferor is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Transferor must be stated.)

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EXHIBIT C-2

FORM OF CERTIFICATE FOR TRANSFERS FROM
[RESTRICTED GLOBAL BOND][REGULATION S CERTIFICATED BOND] TO
RESTRICTED CERTIFICATED BOND

(FOR TRANSFERS PURSUANT TO SECTION 3.07(2)[(B)][(D)]
OF THE INDENTURE)

The Bank of New York,
as Trustee
101 Barclay Street
New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior Secured Bonds due , 2019] of NRG Peaker Finance Company LLC (the "Bonds")

Reference is made to the Indenture, dated as of June 18, 2002 (the "Indenture"), among NRG Peaker Finance Company LLC (the "Company"), XL Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC, and NRG Sterlington Power LLC, as guarantors, and The Bank of New York, as Trustee (the "Trustee"). Capitalized terms used herein and defined in the Indenture or in Regulation S or Rule 144 under the U.S. Securities Act of 1933, as amended (the "Securities Act") are used herein as so defined.

This certificate relates to U.S.\$_____ aggregate initial principal amount of Bonds which are [evidenced by the Restricted Global Bond (CUSIP No. _____; ISIN _____) and held with the Depository][held in the definitive form of a Regulation S Certificated Bond (CUSIP No. _____; ISIN _____) and registered] in the name of [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such [beneficial interest in the Bonds][Bond] to a Person who will take delivery thereof in the form of an equal aggregate initial principal amount of Bonds held in the definitive form of a Restricted Certificated Bond (CUSIP No. _____; ISIN _____).

In connection with such request and in respect of such Bonds, the Transferor does hereby certify that the Bonds are being transferred to an institutional investor that is an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act pursuant to an exemption from registration under the Securities Act.

The Transferor also certifies that such transfer is being made to a person who the Transferor reasonably believes is also a qualified purchaser within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended.

We understand that this certificate is required in connection with certain securities laws of the United States. In connection therewith, if administrative or legal proceedings are commenced or threatened in connection with which this certificate is or would be relevant, we irrevocably authorize you to produce this certificate to any interested party in such proceeding.

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This certificate and the statements contained herein are made for your benefit and the benefit of the Company and Goldman Sachs International as the initial purchaser of the Bonds.

Dated:

(Print the name of the Transferor, as such term is defined in the second paragraph of this certificate.)

By: -----

Name:
Title:
(If the Transferor is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Transferor must be stated.)

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EXHIBIT C-3

FORM OF CERTIFICATE FOR TRANSFERS FROM
[REGULATION S CERTIFICATED BOND] [RESTRICTED CERTIFICATED BOND]
TO RESTRICTED GLOBAL BOND

(FOR TRANSFERS PURSUANT TO SECTION 3.07(2)(C) OF THE INDENTURE)

The Bank of New York,
as Trustee
101 Barclay Street

New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior Secured
Bonds due , 2019] of NRG Peaker Finance Company LLC (the
"Bonds")

Reference is made to the Indenture, dated as of June 18, 2002
(the "Indenture"), among NRG Peaker Finance Company LLC (the "Company"), XL
Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I
Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC, and NRG Sterlington
Power LLC, as guarantors, and The Bank of New York, as Trustee (the "Trustee").
Capitalized terms used herein and defined in the Indenture or in Regulation S or
Rule 144 under the U.S. Securities Act of 1933, as amended (the "Securities
Act") are used herein as so defined.

This certificate relates to \$_____ aggregate initial
principal amount of Bonds held in the definitive form of a [Restricted
Certificated Bond (CUSIP No. _____; ISIN _____)] [Regulation S
Certificated Bond (CUSIP No. _____; ISIN _____)] by [insert name of
transferor] (the "Transferor"). The Transferor has requested a transfer of such
Bonds to a Person that will take delivery in the form of an equal initial
principal amount of Bonds evidenced by the Restricted Global Bond (CUSIP No.
_____; ISIN _____).

In connection with such request and in respect of such Bonds,
the Transferor does hereby certify that such transfer has been effected pursuant
to and in accordance with Rule 144A under the Securities Act and accordingly the
Transferor does hereby further certify that the Bonds are being transferred to a
person that the Transferor reasonably believes is purchasing the Bonds for its
own account, or for one or more accounts with respect to which such Person
exercises sole investment discretion, and such Person and each such account is a
"qualified institutional buyer" within the meaning of Rule 144A and the Bonds
have been transferred in a transaction meeting the requirements of Rule 144A and
in accordance with any applicable securities laws of any state of the United
States.

The Transferor also certifies that such transfer is being made
to a person who the Transferor reasonably believes is also a qualified purchaser
within the meaning of Section 2(a)(51)(A) of the Investment Company Act of 1940,
as amended.

We understand that this certificate is required in connection
with certain securities laws of the United States. In connection therewith, if
administrative or legal proceedings are commenced or threatened in connection
with which this certificate is or would be relevant, we irrevocably authorize
you to produce this certificate to any interested party in such proceeding.

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This certificate and the statements contained herein are made
for your benefit and the benefit of the Company and Goldman Sachs International
as the initial purchaser of the Bonds.

Dated:

(Print the name of the Transferor, as
such term is defined in the second
paragraph of this certificate.)

By: _____
Name:
Title:

(If the Transferor is a corporation, partnership or fiduciary, the title of the person signing on behalf of the Transferor must be stated.)

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EXHIBIT D-1

INVESTOR CERTIFICATE FOR
FOR REGULATION S CERTIFICATED BONDS

NRG Peaker Finance Company LLC
901 Marquette Avenue
Suite 2800
Minneapolis, MN 55402-3265
Attention: General Counsel

The Bank of New York,
as Trustee
101 Barclay Street
New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior Secured Bonds due 2019] of NRG Peaker Finance Company LLC (the "Bonds")

Reference is made to the Indenture, dated as of June 18, 2002 (the "Indenture"), among NRG Peaker Finance Company, LLC (the "Issuer"), XL Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC, and NRG Sterlington Power LLC, as guarantors and The Bank of New York, as Trustee (the "Trustee"). Capitalized terms used herein and defined in the Indenture.

The undersigned, in connection with its purchase of the Bonds identified below, hereby represents and warrants as of the date hereof as follows:

1. The undersigned is not, and each account on behalf of which it is acquiring the Bonds is not a "U.S. person" as defined in Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), and is acquiring the Bonds in reliance on the exemption from registration provided by Regulation S thereunder.

2. It understands that the Bonds have not been registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (a)(i) by an initial investor, (A) to a person who its reasonably believes is a qualified institutional buyer acquiring for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), (ii) by a subsequent investor, as set forth in (i) above and, in addition, to an institutional investor that is an accredited investor within the meaning of Rule 501 of Regulation D under the Securities Act pursuant to an exemption from registration under the Securities Act (if available) or (iii) pursuant to an effective registration statement under the Securities Act, (b) to a person who is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions. It also understands that the Issuer has

not been registered under the Investment Company Act. It understands and agrees that any purported transfer of the Bonds to a purchaser that does not comply with the requirements set forth in this Investor Certificate will be null and void ab initio. It agrees, in connection with any subsequent transfer of the Bonds it is

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acquiring, to cause the proposed transferee to execute and deliver to the Trustee an Investor Certificate substantially in the form hereof.

3. The undersigned is, and each account on behalf of which it is acquiring the Bonds is also a "qualified purchaser" for purposes of Section 3(c)(7) of the Investment Company Act.

4. It is acquiring the Bonds in an initial principal amount of not less than \$250,000 for the purchaser and for each such account.

5. It is (or if it is acquiring the Bonds for another account, each such account is) acquiring the Bonds as principal for its own account for investment and not for sale in connection with any distribution thereof.

6. The undersigned and each such account: (i) were not formed for the specific purpose of investing in the Bonds (except when each beneficial owner of the undersigned and each such account is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act), (ii) to the extent the undersigned or such account is a private investment company formed before April 30, 1996, the undersigned or such account has received the necessary consent from the undersigned's or such account's beneficial owners, (iii) are not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (iv) are not a broker-dealer that owns and invests on a discretionary basis less than \$25,000,000 in securities of unaffiliated issuers.

7. Further, each of the undersigned and each such account agrees: (i) that the undersigned or such account shall not hold the Bonds for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes; (ii) that the undersigned or it shall not sell participation interests in the Bonds or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in distributions on the Bonds; (iii) that the Bonds purchased directly or indirectly by it constitute an investment of no more than 40% of the undersigned's and each such account's assets (except when each beneficial owner of the undersigned and each such account is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act), (iv) to purchase the Bonds in a principal amount of not less than \$250,000 for the holder and each such account and (v) that the undersigned or it will provide notice to subsequent transferees of the relevant transfer restrictions described in this Investor Certificate.

8. In connection with the transfer to it of the Bonds: (i) none of the Issuer or any of its affiliates is acting as a fiduciary or financial or investment adviser for it; (ii) it is not relying on any written or oral advice, counsel or representations of the Issuer other than in the final offering circular dated June 14, 2002 relating to the offering of the Bonds (the "Offering Circular"); (iii) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisers to the extent it has deemed necessary, and has made its own investment decisions based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuer or any of its affiliates; and (iv) it is a sophisticated investor and is acquiring the Bonds with a full understanding of all of the terms, conditions and risks thereof, and it is capable of assuming and willing to assume those risks.

9. It is not a "U.S. person" as defined in Section 7701(a)(30) of the Internal Revenue Service Code of 1986, as amended; it will provide the Trustee with a properly completed Form W-8 since it is not a "U.S. person"; and it represents that it is not acquiring the Bonds as part of a plan to reduce, avoid or evade U.S. federal income taxes owed, owing, or potentially owed or owing.

10. If the undersigned is a bank or a branch of a bank, it represents that it is purchasing the Bonds for investment purposes, and not in the ordinary course of its lending business.

11. It understands that the Issuer, the Trustee and their respective counsel will rely upon the accuracy and truth of the foregoing representations, and it hereby consents to such reliance.

Dated: [_____]

Very truly yours,

By: _____
Name:
Title:

Purchase of an aggregate principal amount of
[Series A Floating Rate] Senior Secured Bonds: US\$ _____

REGISTRATION AND PAYMENT INSTRUCTIONS

Name in which Bonds should be registered: _____

Address and Contact Person
for notices: _____

Telephone number: _____

Telecopier number: _____

Instructions for delivery of Bonds: _____

Wire transfer information for payments:

Bank: _____
Address: _____
Bank ABA#: _____
Account #: _____
FAO: _____
Attention: _____

INVESTOR CERTIFICATE FOR
FOR RESTRICTED CERTIFICATED BONDS

NRG Peaker Finance Company LLC

901 Marquette Avenue
Suite 2800
Minneapolis, MN 55402-3265
Attention: General Counsel

The Bank of New York,
as Trustee
101 Barclay Street
New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior Secured
Bonds due 2019] of NRG Peaker Finance Company LLC (the
"Bonds")

Reference is made to the Indenture, dated as of June 18, 2002
(the "Indenture"), among NRG Peaker Finance Company, LLC (the "Issuer"), XL
Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I
Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC, and NRG Sterlington
Power LLC, as guarantors and The Bank of New York, as Trustee (the "Trustee").
Capitalized terms used herein and defined in the Indenture.

The undersigned, in connection with its purchase of the Bonds
identified below, hereby represents and warrants as of the date hereof as
follows:

1. The undersigned is, and each account on behalf of which it is
acquiring the Bonds is also an institutional investor that is an accredited
investor within the meaning of Rule 501 of Regulation D under the Securities Act
of 1933, as amended (the "Securities Act"), and is acquiring the Bonds pursuant
to an exemption from registration under the Securities Act.

2. It understands that the Bonds have not been registered under the
Securities Act and may not be offered, resold, pledged or otherwise transferred
except (a)(i) by an initial investor, (A) to a person who its reasonably
believes is a qualified institutional buyer acquiring for its own account or the
account of a qualified institutional buyer in a transaction meeting the
requirements of Rule 144A, (B) in an offshore transaction complying with Rule
903 or Rule 904 of Regulation S, or (C) pursuant to an exemption from
registration under the Securities Act provided by Rule 144 thereunder (if
available), (ii) by a subsequent investor, as set forth in (i) above and, in
addition, to an institutional investor that is an accredited investor within the
meaning of Rule 501 of Regulation D under the Securities Act pursuant to an
exemption from registration under the Securities Act (if available) or (iii)
pursuant to an effective registration statement under the Securities Act, (b) to
a person who is a qualified purchaser for purposes of Section 3(c)(7) of the
Investment Company Act of 1940, as amended (the "Investment Company Act"), and
(c) in accordance with all applicable securities laws of the states of the
United States and other jurisdictions. It also understands that the Issuer has
not been registered under the Investment Company Act. It understands and agrees
that any purported transfer of the Bonds to a

purchaser that does not comply with the requirements set forth in this Investor Certificate will be null and void ab initio. It agrees, in connection with any subsequent transfer of the Bonds it is acquiring, to cause the proposed transferee to execute and deliver to the Trustee an Investor Certificate substantially in the form hereof.

3. The undersigned is, and each account on behalf of which it is acquiring the Bonds is also a "qualified purchaser" for purposes of Section 3(c)(7) of the Investment Company Act.

4. It is acquiring the Bonds in an initial principal amount of not less than \$250,000 for the purchaser and for each such account.

5. It is (or if it is acquiring the Bonds for another account, each such account is) acquiring the Bonds as principal for its own account for investment and not for sale in connection with any distribution thereof.

6. The undersigned and each such account: (i) were not formed for the specific purpose of investing in the Bonds (except when each beneficial owner of the undersigned and each such account is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act), (ii) to the extent the undersigned or such account is a private investment company formed before April 30, 1996, the undersigned or such account has received the necessary consent from the undersigned's or such account's beneficial owners, (iii) are not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (iv) are not a broker-dealer that owns and invests on a discretionary basis less than \$25,000,000 in securities of unaffiliated issuers.

7. Further, each of the undersigned and each such account agrees: (i) that the undersigned or such account shall not hold the Bonds for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes; (ii) that the undersigned or it shall not sell participation interests in the Bonds or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in distributions on the Bonds; (iii) that the Bonds purchased directly or indirectly by it constitute an investment of no more than 40% of the undersigned's and each such account's assets (except when each beneficial owner of the undersigned and each such account is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act), (iv) to purchase the Bonds in a principal amount of not less than \$250,000 for the holder and each such account and (v) that the undersigned or it will provide notice to subsequent transferees of the relevant transfer restrictions described in this Investor Certificate.

8. In connection with the transfer to it of the Bonds: (i) none of the Issuer or any of its affiliates is acting as a fiduciary or financial or investment adviser for it; (ii) it is not relying on any written or oral advice, counsel or representations of the Issuer other than in the final offering circular dated June 14, 2002 relating to the offering of the Bonds (the "Offering Circular"); (iii) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisers to the extent it has deemed necessary, and has made its own investment decisions based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuer or any of its affiliates; and (iv) it is a sophisticated investor and is acquiring the Bonds with a full understanding of all of the terms, conditions and risks thereof, and it is capable of assuming and willing to assume those risks.

9. It will provide the Trustee with a properly completed Form W-9 if it is a "U.S. person" for purposes of Section 7701(a)(30) of the Internal Revenue Service Code of 1986, as amended (the "Code") that is not exempt from such requirement, and a properly completed Form W-8 if it is not a "U.S. person".

10. If it is not a "U.S. person" as defined in Section 7701(a)(30) of the Code, it represents that it is not acquiring the Bonds as part of a plan to reduce, avoid or evade U.S. federal income taxes owed, owing, or potentially owed or owing.

11. If the undersigned is a bank or a branch of a bank, it represents that it is purchasing the Bonds for investment purposes, and not in the ordinary course of its lending business.

12. It understands that the Issuer, the Trustee and their respective counsel will rely upon the accuracy and truth of the foregoing representations, and it hereby consents to such reliance.

Dated: [_____]

Very truly yours,

By: _____
Name:
Title:

Purchase of an aggregate principal amount of
[Series A Floating Rate] Senior Secured Bonds: US\$ _____

REGISTRATION AND PAYMENT INSTRUCTIONS

Name in which Bonds should be registered: _____

Address and Contact Person
for notices: _____

Telephone number: _____

Telecopier number: _____

Instructions for delivery of Bonds: _____

Wire transfer information for payments:
Bank: _____
Address:

Bank ABA#: -----
Account #: -----
FAO: -----
Attention: -----

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EXHIBIT D-3

INVESTOR CERTIFICATE FOR
FOR RESTRICTED GLOBAL BONDS

NRG Peaker Finance Company LLC

901 Marquette Avenue
Suite 2800
Minneapolis, MN 55402-3265
Attention: General Counsel

The Bank of New York,
as Trustee
101 Barclay Street
New York, NY 10286
Attention: Corporate Trust Administration

Re: [Insert as applicable: Series A Floating Rate Senior Secured
Bonds due 2019] of NRG Peaker Finance Company LLC (the
"Bonds")

Reference is made to the Indenture, dated as of June 18, 2002
(the "Indenture"), among NRG Peaker Finance Company, LLC (the "Issuer"), XL
Capital Assurance Inc., as insurer, Bayou Cove Peaking Power, LLC, Big Cajun I
Peaking Power LLC, NRG Rockford LLC, NRG Rockford II LLC, and NRG Sterlington
Power LLC, as guarantors and The Bank of New York, as Trustee (the "Trustee").
Capitalized terms used herein and defined in the Indenture.

The undersigned, in connection with its purchase of the Bonds
identified below, hereby represents and warrants as of the date hereof as
follows:

1. The undersigned is, and each account on behalf of which it is
acquiring the Bonds is also a "qualified institutional buyer" as defined in Rule
144A under the Securities Act of 1933, as amended (the "Securities Act"), and is
acquiring the Bonds in reliance on the exemption from Securities Act
registration provided by Rule 144A thereunder.

2. It understands that the Bonds have not been registered under the
Securities Act and may not be offered, resold, pledged or otherwise transferred
except (a) (i) by an initial investor, (A) to a person who its reasonably
believes is a qualified institutional buyer acquiring for its own account or the
account of a qualified institutional buyer in a transaction meeting the
requirements of Rule 144A, (B) in an offshore transaction complying with Rule
903 or Rule 904 of Regulation S, or (C) pursuant to an exemption from
registration under the Securities Act provided by Rule 144 thereunder (if
available), (ii) by a subsequent investor, as set forth in (i) above and, in
addition, to an institutional investor that is an accredited investor within the

meaning of Rule 501 of Regulation D under the Securities Act pursuant to an exemption from registration under the Securities Act (if available) or (iii) pursuant to an effective registration statement under the Securities Act, (b) to a person who is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), and (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions. It also understands that the Issuer has not been registered under the Investment Company Act. It understands and agrees that any purported transfer of the Bonds to a

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purchaser that does not comply with the requirements set forth in this Investor Certificate will be null and void ab initio. It agrees, in connection with any subsequent transfer of the Bonds it is acquiring, to cause the proposed transferee to execute and deliver to the Trustee an Investor Certificate substantially in the form hereof.

3. The undersigned is, and each account on behalf of which it is acquiring the Bonds is also a "qualified purchaser" for purposes of Section 3(c)(7) of the Investment Company Act.

4. It is acquiring the Bonds in an initial principal amount of not less than \$250,000 for the purchaser and for each such account.

5. It is (or if it is acquiring the Bonds for another account, each such account is) acquiring the Bonds as principal for its own account for investment and not for sale in connection with any distribution thereof.

6. The undersigned and each such account: (i) were not formed for the specific purpose of investing in the Bonds (except when each beneficial owner of the undersigned and each such account is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act), (ii) to the extent the undersigned or such account is a private investment company formed before April 30, 1996, the undersigned or such account has received the necessary consent from the undersigned's or such account's beneficial owners, (iii) are not a pension, profit sharing or other retirement trust fund or plan in which the partners, beneficiaries or participants, as applicable, may designate the particular investments to be made and (iv) are not a broker-dealer that owns and invests on a discretionary basis less than \$25,000,000 in securities of unaffiliated issuers.

7. Further, each of the undersigned and each such account agrees: (i) that the undersigned or such account shall not hold the Bonds for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes; (ii) that the undersigned or it shall not sell participation interests in the Bonds or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in distributions on the Bonds; (iii) that the Bonds purchased directly or indirectly by it constitute an investment of no more than 40% of the undersigned's and each such account's assets (except when each beneficial owner of the undersigned and each such account is a qualified purchaser for purposes of Section 3(c)(7) of the Investment Company Act), (iv) to purchase the Bonds in a principal amount of not less than \$250,000 for the holder and each such account and (v) that the undersigned or it will provide notice to subsequent transferees of the relevant transfer restrictions described in this Investor Certificate.

8. In connection with the transfer to it of the Bonds: (i) none of the Issuer or any of its affiliates is acting as a fiduciary or financial or investment adviser for it; (ii) it is not relying on any written or oral advice, counsel or representations of the Issuer other than in the final offering circular dated June 14, 2002 relating to the offering of the Bonds (the "Offering Circular"); (iii) it has consulted with its own legal, regulatory, tax, business, investment, financial, and accounting advisers to the extent it has deemed necessary, and has made its own investment decisions based upon its

own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuer or any of its affiliates; and (iv) it is a sophisticated investor and is acquiring the Bonds with a full understanding of all of the terms, conditions and risks thereof, and it is capable of assuming and willing to assume those risks.

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9. It will provide the Trustee with a properly completed Form W-9 if it is a "U.S. person" for purposes of Section 7701(a)(30) of the Internal Revenue Service Code of 1986, as amended (the "Code") that is not exempt from such requirement, and a properly completed Form W-8 if it is not a "U.S. person".

10. If it is not a "U.S. person" as defined in Section 7701(a)(30) of the Code, it represents that it is not acquiring the Bonds as part of a plan to reduce, avoid or evade U.S. federal income taxes owed, owing, or potentially owed or owing.

11. If the undersigned is a bank or a branch of a bank, it represents that it is purchasing the Bonds for investment purposes, and not in the ordinary course of its lending business.

12. It understands that the Issuer, the Trustee and their respective counsel will rely upon the accuracy and truth of the foregoing representations, and it hereby consents to such reliance.

Dated: [_____]

Very truly yours,

By:

Name:

Title:

Purchase of an aggregate principal amount of
[Series A Floating Rate] Senior Secured Bonds: US\$

REGISTRATION AND PAYMENT INSTRUCTIONS

Name in which Bonds should be registered:

Address and Contact Person
for notices:

Telephone number:

Telecopier number:

Instructions for delivery of Bonds:

Wire transfer information for payments:

Bank: -----
Address: -----
Bank ABA#: -----
Account #: -----
FAO: -----
Attention: -----

EXHIBIT E

NRG PEAKER FINANCE COMPANY LLC,
as Issuer,

BAYOU COVE PEAKING POWER, LLC,
BIG CAJUN I PEAKING POWER LLC,
NRG ROCKFORD LLC, NRG ROCKFORD II LLC,
AND NRG STERLINGTON POWER LLC,
as Guarantors,

XL CAPITAL ASSURANCE INC.
as Insurer,

TO

THE BANK OF NEW YORK,
as Trustee

[FIRST] SUPPLEMENTAL INDENTURE

Dated as of [_____, ____]

\$_[_____]

"Series [__] [Floating Rate] [Fixed Rate] Senior Secured Bonds"

EXHIBIT E

[FIRST] SUPPLEMENTAL INDENTURE, dated as of [____], 20[___] among NRG Peaker Finance Company LLC, a limited liability company duly organized and existing under the laws of the State of Delaware (herein called the "Company"), having its principal office at 901 Marquette Avenue, Suite 2300, Minneapolis, MN 55402-3265, Bayou Cove Peaking Power, LLC, Big Cajun I Peaking Power LLC and NRG Sterlington Power LLC, each a Delaware limited liability company and NRG Rockford LLC and NRG Rockford II LLC, each an Illinois limited liability company (herein collectively called the "Guarantors" or the "Project Companies"), XL Capital Assurance Inc., an insurance company incorporated under the laws of the State of New York (herein called the "Insurer") and The Bank of New York, as Trustee (herein called the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

WITNESSETH:

WHEREAS, the Company has heretofore entered into an Indenture, dated as of June [___], 2002 (the "Original Indenture"), with the Guarantors, the Insurer and the Trustee;

WHEREAS, the Original Indenture is incorporated herein by this reference and the Original Indenture, as supplemented by this Supplemental Indenture, is herein called the "Indenture";

WHEREAS, under the Original Indenture, additional series of floating rate senior secured bonds and fixed rate senior secured bonds may at any time be established by the Company in accordance with the provisions of the Original Indenture and the terms of such series may be described by a supplemental indenture executed by the Company, the Guarantors, the Trustee and the Insurer;

WHEREAS, the Company proposes to create under the Indenture an additional series of [floating rate] [fixed rate] senior secured bonds;

WHEREAS, additional floating rate and fixed rate senior secured bonds of other series hereafter established, except as may be limited in the Original Indenture as at the time supplemented and modified, may be issued from time to time pursuant to the Indenture as at the time supplemented and modified; and

WHEREAS, all things necessary to make the Series [___] [Floating Rate] [Fixed Rate] Senior Secured Bonds (as defined below), when executed by the Company and authenticated and delivered under this Supplemental Indenture and duly issued by the Company, the valid obligations of the Company, and to make this Supplemental Indenture a valid agreement of the Company, in accordance with their and its terms, have been done.

NOW, THEREFORE, for and in consideration of the premises and the purchase of the Series [___] [Floating Rate] [Fixed Rate] Senior Secured Bonds by their Holders, it is mutually agreed, for the equal and proportionate benefit of all Holders, as follows:

ARTICLE I

Series [___] [Floating Rate] [Fixed Rate] Senior Secured Bonds

Section 1.01. Establishment. There is hereby established an additional series of [floating rate] [fixed rate] senior secured bonds to be issued under the Indenture, to be

designated as the Company's Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds due [____] (the "Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds").

The aggregate Initial Principal Amount of Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds that may be authenticated and delivered under this Supplemental Indenture is limited to \$[____], except for Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds pursuant to Section 3.05, 3.06, 3.08, 10.05 or 12.06. of the Original Indenture.

[The Series [____] Floating Rate Senior Secured Bonds shall be issued in the form of one Global Bond in substantially the form set out in Exhibit A-1 to the Original Indenture.] [The Series [____] Fixed Rate Senior Secured Bonds shall be issued in the form of one Global Bond in substantially the form set out in Exhibit A-2 to the Original Indenture.] The Depository with respect to the Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds shall be The Depository Trust Company.

The form of the Trustee's Certificate of Authentication for the Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds shall be in substantially the form set forth in Section 2.04 of the Original Indenture.

Each Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds shall be dated the date of authentication thereof and shall bear interest from the date of original issuance thereof or from the most recent Scheduled Payment Date to which interest has been paid or duly provided for.

Section 1.02. Definitions. The following defined terms used herein shall, unless the context otherwise requires, have the meanings specified below. Capitalized terms used herein for which no definition is provided herein shall have the meanings set forth in the Original Indenture.

"Stated Maturity" means [_____].

[insert other applicable definitions]

Section 1.03. Payment of Principal and Interest.

The Company shall repay the principal amount of the [____]% Fixed Rate Senior Secured Bonds in annual installments, commencing on [____] and continuing until the Stated Maturity. The aggregate amount of principal of the [____]% [Series ____] [Floating Rate] [Fixed Rate] Senior Secured Bonds to be repaid in each year shall be as follows:

Year	Principal Amount	Year	Principal Amount
----	-----	----	-----
	\$		\$

The unpaid principal amount of the Series [____] [Floating Rate] [Fixed Rate] Senior Secured Bonds shall bear interest [insert applicable interest provisions].

[Insert other applicable provisions].

ARTICLE II

Miscellaneous Provisions

Section 2.01. Recitals by Company. The recitals contained in this Supplemental Indenture and in the Series [___] [Floating Rate] [Fixed Rate] Senior Secured Bonds, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Series [___] [Floating Rate] [Fixed Rate] Senior Secured Bonds or the proceeds thereof.

Section 2.02. Ratification and Incorporation of Original Indenture. As supplemented hereby, the Original Indenture is in all respects ratified and confirmed, and the Original Indenture and this Supplemental Indenture shall be read, taken and construed as one and the same instrument.

Section 2.03. Executed in Counterparts. This Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have caused this [First] Supplemental Indenture to be duly executed all as of the day and year first above written.

NRG PEAKER FINANCE COMPANY LLC,
as Issuer

By: _____
Name:
Title:

BAYOU COVE PEAKING POWER, LLC,
as Guarantor

By: _____
Name:
Title:

BIG CAJUN I PEAKING POWER LLC,
as Guarantor

By: _____
Name:
Title:

NRG ROCKFORD LLC,
as Guarantor

By: _____
Name:
Title:

NRG ROCKFORD II LLC,
as Guarantor

By: _____
Name:
Title:

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NRG STERLINGTON POWER LLC,
as Guarantor

By: _____
Name:
Title:

XL CAPITAL ASSURANCE INC.,
as Insurer

By: _____
Name:
Title:

THE BANK OF NEW YORK,
as Trustee

By: _____
Name:
Title:

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=====

COMMON AGREEMENT

among

XL CAPITAL ASSURANCE INC.
(XLCA)

GOLDMAN SACHS MITSUI MARINE DERIVATIVE PRODUCTS, L.P.
(Swap Counterparty)

THE BANK OF NEW YORK
(Trustee)

THE BANK OF NEW YORK
(Collateral Agent)

NRG PEAKER FINANCE COMPANY LLC
(Issuer)

and

EACH PROJECT COMPANY PARTY HERETO
(Project Companies)

DATED AS OF JUNE 18, 2002

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This COMMON AGREEMENT (as amended, amended and restated, supplemented or otherwise modified from time to time, this "Agreement"), dated as of June 18, 2002, is entered into among (1) XL Capital Assurance Inc., a New York stock insurance company ("XLCA"), (2) Goldman Sachs Mitsui Marine Derivative Products, L.P., a Delaware limited partnership (the "Swap Counterparty"), (3) The Bank of New York, a New York banking corporation, not in its individual capacity but solely as trustee for the benefit of the holders of the Bonds (the "Bondholders") (in such capacity, the "Trustee"), (4) The Bank of New York, as collateral agent for the benefit of the Secured Parties (in such capacity, the "Collateral Agent"), (5) NRG Peaker Finance Company LLC, a Delaware limited liability company, as Issuer (the "Issuer"), and (6) each party hereto identified as a Project Company on the signature pages hereto (each a "Project Company" and, collectively, the "Project Companies").

RECITALS

WHEREAS:

A. The Projects comprise five natural gas-fired electric generation facilities located in Louisiana and Illinois. The electric generation facilities comprising the Projects are peaker facilities designed to generate electricity during periods of peak demand for electricity. As of the date hereof, the Big Cajun I Units 3&4 Project, the Rockford I Project and the Sterlington Project are complete and operate commercially. The Rockford II Project and the Bayou Cove Project are guaranteed by NRG Energy pursuant to the Contingent Guaranty Agreement to be completed and commercially operating by June 30, 2003.

B. Each Project is owned by an indirect wholly-owned subsidiary of NRG Energy. The Issuer is an indirect wholly-owned subsidiary of NRG Energy.

C. The Issuer will issue and sell its Series A Bonds in an offering in reliance on Rule 144A and Regulation S under the Securities Act and will use the proceeds from the sale of the Series A Bonds to make loans to three of the five Project Companies pursuant to and in accordance with the Project Loan Agreements. Such Project Companies will use the proceeds of the sale of the Series A Bonds lent to them pursuant to the Project Loan Agreements to (i) reimburse NRG Energy for NRG Energy's costs of having constructed and/or acquired the Projects (including interest incurred during construction), (ii) pay the Premium, (iii) deposit \$11,279,588 on the Closing Date into the Collateralized Experience Account, and (iv) pay transaction fees and costs in connection with the Transaction.

D. The Issuer will pay the principal of and interest on the Series A Bonds in accordance with the terms of the Indenture.

E. The Issuer will enter into the Swap Agreement with the Swap Counterparty pursuant to which the Issuer will make fixed rate interest rate payments to the Swap Counterparty and the Swap Counterparty will make floating rate interest payments to the Issuer.

F. Regularly scheduled payments of principal of and interest on the Series A Bonds will be unconditionally and irrevocably guaranteed by XLCA pursuant to, and subject to, the Policy and the Insurance and Reimbursement Agreement in exchange for the payment of the Premium by the Issuer to XLCA as set forth in the Premium Letter.

G. Regularly scheduled payments of Swap Payment Amounts will be unconditionally and irrevocably guaranteed by XLCA pursuant to, and subject to, the Swap Policy and the Insurance and Reimbursement Agreement in exchange for the payment of the Swap Policy Premium by the Issuer to XLCA as set forth in the Premium Letter.

H. Pursuant to and in accordance with the Contingent Guaranty Agreement, NRG Energy will be obligated to make certain payments under circumstances specified in the Contingent Guaranty Agreement.

I. Pursuant to and in accordance with the Insurance and Reimbursement Agreement, the Issuer will be obligated to reimburse XLCA in respect of payments (if any) made by XLCA pursuant to the Policy and/or the Swap Policy and in respect of other amounts specified in the Insurance and Reimbursement Agreement.

J. Pursuant to the Issuer Collateral Documents, the Issuer's obligations owed to the Secured Parties will be secured by a first priority lien for the benefit of the Secured Parties on the membership interests in the Issuer and all of the property and assets of the Issuer (including the Project Loan Notes).

K. Pursuant to the Guaranties, each of the Project Companies will unconditionally and irrevocably guaranty the obligations and indebtedness of the Issuer in respect of the Guaranteed Obligations, which Guaranties will, pursuant to the Project Company Collateral Documents, be secured by a first priority lien for the benefit of the Secured Parties on the membership interests in each Project Company (other than the Big Cajun Project Company and the Sterlington Project Company) and on all or substantially all of the property and assets of each Project Company.

L. The parties hereto wish to enter into this Agreement in order to, among other things, set forth certain common provisions regarding the various transactions recited above.

NOW, THEREFORE, in consideration of the agreements herein, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS AND RULES OF INTERPRETATION

1.1 Definitions. Capitalized terms defined in the preamble of this Agreement shall have the meanings given to them in the preamble of this Agreement and, except as otherwise expressly provided in this Agreement, capitalized terms used in the preamble, the recitals and in this Agreement shall have the meanings given in Annex A hereto.

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1.2 Rules of Interpretation. Except as otherwise expressly provided in this Agreement, the rules of interpretation set forth in Annex A hereto shall apply to this Agreement.

1.3 Accounting Principles and Terms. Except as otherwise provided in this Agreement, (a) all computations and determinations as to financial matters, and all financial statements to be delivered under this Agreement, shall be made or prepared in accordance with GAAP (including principles of consolidation where appropriate but excluding footnote disclosure on interim financial statements) and on a consistent basis (except to the extent approved or required by the independent public accountants certifying such statements and disclosed therein), and (b) all accounting terms used in this Agreement shall have the meanings respectively ascribed to such terms by GAAP.

ARTICLE 2
AFFIRMATIVE COVENANTS OF ISSUER

The Issuer covenants and agrees that it shall perform the covenants set forth in this Article 2 (unless waived in accordance with Section 9.2 of this Agreement).

2.1 Use of Proceeds and Revenues.

(a) Proceeds. Unless otherwise expressly provided herein or in the Depositary Agreement, the Issuer shall use all the proceeds from the sale of the Series A Bonds to lend to each of the Bayou Cove Project Company, the Rockford I Project Company and the Rockford II Project Company such Project Company's Project Loan Amount pursuant to the Project Loan Agreement to which such Project Company is a party.

(b) Revenues. Unless otherwise expressly provided herein or in the Depositary Agreement, the Issuer shall deposit, or cause to be deposited, all Project Revenues paid to or otherwise received by the Issuer in the applicable Account in accordance with the terms of the Depositary Agreement.

2.2 Notices. The Issuer shall promptly, upon acquiring notice or giving notice, as the case may be, or obtaining knowledge thereof, give written notice (together with copies of any underlying notices or other documentation) to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any such written notice received by it to any other Person) of:

(a) Any action, suit, arbitration or litigation pending or threatened against the Issuer and (i) involving claims against the Issuer in excess of \$5,000,000 in the aggregate, or (ii) involving any injunctive, declaratory or other equitable relief that, if determined adversely to the Issuer, could reasonably be expected to have an Issuer Material Adverse Effect, such notice to include, if reasonably requested by the Controlling Party, copies of all material papers filed in such litigation involving the Issuer, and, if reasonably requested by the Controlling Party, such notice to be given monthly if any such papers have been filed since the last notice given;

(b) Any dispute or disputes which may exist between the Issuer and any Governmental Authority and which involve (i) claims against the Issuer which exceed

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\$5,000,000 in the aggregate, or (ii) injunctive or declaratory relief that, if adversely determined, could reasonably be expected to have an Issuer Material Adverse Effect;

(c) Any Issuer Event of Default or Issuer Inchoate Default, together with a description of any action being taken or proposed to be taken with respect thereto;

(d) Any matter which has had or, in the Issuer's reasonable judgment, could reasonably be expected to have, an Issuer Material Adverse Effect;

(e) Any change in ratings given to the Issuer by Moody's or S&P, including the placement of the Issuer on "credit watch negative" or a similar status, and, to the extent the Issuer, any Project Company or NRG Energy has been notified in writing by any Rating Agency, any change in the Shadow Ratings; and

(f) Any other documentation or other information reasonably

requested by XLCA (if XLCA is the Controlling Party).

Notwithstanding the foregoing, the Issuer shall not be required to give notice of any matter described in this Section 2.2 that is described in any Form 10-K, 10-Q or 8-K or other form or document filed by the Issuer or any of its Affiliates with the Securities and Exchange Commission and available on the Securities and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.

2.3 Financial Statements. The Issuer shall deliver or cause to be delivered to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any financial statements or other information provided to it under this Section 2.3 to any other Person):

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Issuer, an audited consolidated balance sheet of the Issuer as of the end of such fiscal year and the related audited statements of income, retained earnings and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, to the extent available, all reported on by an independent public accountant of nationally recognized standing; and

(b) each time financial statements are delivered under Section 2.3(a) above, along with such financial statements, a certificate signed by a Responsible Officer of the Issuer, certifying that such officer has made or caused to be made a review of the transactions and financial condition of the Issuer during the relevant fiscal period and that such review has not, to the best of such Responsible Officer's knowledge, disclosed the existence of any event or condition which constitutes an Issuer Event of Default or Issuer Inchoate Default, or if any such event or condition existed or exists, the nature thereof and the corrective actions that the Issuer has taken or proposes to take with respect thereto, and also certifying that the Issuer is in compliance with all applicable material provisions of each Financing Document to which the Issuer is a party or, if such is not the case, stating the nature of such non-compliance and the corrective actions which the Issuer has taken or proposes to take with respect thereto.

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2.4 Inspection of Books and Records. The Issuer shall keep proper books of accounts and records in accordance with GAAP and in compliance in all material respects with all applicable Legal Requirements and make the same available for inspection by the Controlling Party.

2.5 Compliance with Laws. The Issuer shall comply with all applicable Legal Requirements, except where non-compliance could not reasonably be expected to have an Issuer Material Adverse Effect.

2.6 Existence, Conduct of Business, Etc. The Issuer shall (a) maintain and preserve (i) its existence as a limited liability company formed under the laws of the State of Delaware (other than as permitted by Section 9.01 of the Indenture), and (ii) all rights, privileges and franchises necessary or desirable in the normal conduct of its business, (b) perform all of its contractual obligations under the Financing Documents and (c) engage only in the businesses (i) contemplated by the Financing Documents as represented in Section 2.1(o)(ii)(C) of the Insurance and Reimbursement Agreement or (ii) otherwise expressly permitted by the Financing Documents. Without limiting the generality of clause (c) in the preceding sentence, the Issuer shall not (A) enter into any Project Document or any Additional Project Document (other than in connection with activities expressly permitted by the Financing Documents), (B) hold any equity, voting or other interest in any Person, or (C) have any employees.

2.7 Calculation of Ratios and Other Compliance Calculations.

(a) Within 17 days after each Determination Date, the Issuer shall deliver to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any such certificate received by it to any other Person) a certificate in the form of Exhibit A with the calculation of the Debt Service Coverage Ratio for the Determination Period ending on such Determination Date. If XLCA is the Controlling Party, XLCA shall notify the Issuer of any errors in the calculation of the Debt Service Coverage Ratio within 10 days after receipt of the Issuer's certificate and the Issuer and XLCA shall diligently work to agree on the correction of any such errors. If the Issuer and XLCA are unable to agree on the correction of any such errors within 5 days after notification by XLCA to the Issuer of any such errors, such dispute shall be resolved by the Fuel and Power Market Consultant within 3 days after submission of the dispute to the Fuel and Power Market Consultant. The Issuer shall deliver a corrected certificate to the Collateral Agent and XLCA within 3 days after agreement by the Issuer and XLCA, or resolution by the Fuel and Power Market Consultant, on the correction of any such errors. If XLCA is not the Controlling Party, the certificate originally delivered by the Issuer to the Collateral Agent shall be final and conclusive.

(b) For so long as NRG Energy or any Acceptable Assignee has obligations under the Contingent Guaranty Agreement, within 17 days after each Determination Date, the Issuer shall deliver to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any such certificate received by it to any other Person) a certificate in the form of Exhibit B for the Determination Period ending on such Determination Date. If XLCA is the Controlling Party, XLCA shall notify the Issuer of any errors in the

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calculation of any of the calculations set forth in such certificate within 10 days after receipt of such certificate and the Issuer and XLCA shall diligently work to agree on the correction of any such errors. If the Issuer and XLCA are unable to agree on the correction of any such errors within 5 days after notification by XLCA to the Issuer of any such errors, such dispute shall be resolved by the Independent Engineer and/or the Fuel and Power Market Consultant, as indicated in Exhibit B, within 3 days after submission of the dispute to the Independent Engineer and/or the Fuel and Power Market Consultant, as the case may be. The Issuer shall deliver a corrected certificate to the Collateral Agent and XLCA within 3 days after agreement by the Issuer and XLCA, or resolution by the Independent Engineer and/or the Fuel and Power Market Consultant, on the correction of any such errors. If XLCA is not the Controlling Party, the certificate originally delivered by the Issuer to the Collateral Agent shall be final and conclusive.

2.8 Further Assurances.

(a) The Issuer shall preserve the security interests in the Issuer Collateral and shall undertake all actions which are necessary or advisable under applicable law in such manner and in such jurisdictions to (i) perfect and maintain the Collateral Agent's security interest in the Issuer Collateral in full force and effect at all times (including the priority thereof), and (ii) preserve and protect the Issuer Collateral and protect and enforce the Issuer's rights and title and the rights of the Collateral Agent to the Issuer Collateral, including the preparation, making or delivery of all filings and recordations, the payment of fees and other charges and the issuance of supplemental documentation.

(b) The Issuer shall perform such reasonable acts as may be necessary to carry out the intent of this Agreement and the other Financing Documents.

(c) The Issuer shall cause its equity interests to be

"certificated securities" as defined in Article 8 of the UCC and include in its limited liability company agreement language (consistent with Section 8-103(c) of the UCC) to the effect that such equity interests are "securities" (as such term is defined in Article 8 of the UCC) governed by Article 8 of the UCC.

2.9 Taxes. The Issuer shall pay and discharge promptly when due all material Taxes and governmental charges imposed upon it or upon its income or profits or in respect of its property, in each case before the same shall become delinquent or in default and before penalties accrue thereon, unless and to the extent the same are being contested in good faith by appropriate proceedings and adequate reserves with respect thereto shall, to the extent required by GAAP, have been set aside, and failure to pay or comply with the contested item could not reasonably be expected to have an Issuer Material Adverse Effect.

2.10 Notice of Redemption. The Issuer shall give notice to XLCA of any redemption for any reason of any Bonds no later than the time a redemption notice in respect of the redemption of such Bonds is given by the Issuer or the Trustee in accordance with the Indenture.

2.11 Swap Agreement. The Issuer shall at all times be a party to an interest rate swap agreement in respect of the Series A Bonds on the same or similar terms (with adjustments to the aggregate notional amount as appropriate) as the Swap Agreement and if for any reason the Issuer is not a party to the Swap Agreement or if the Swap Agreement terminates, the Issuer shall

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ensure that it is party to a Replacement Swap Agreement such that at no time shall the Issuer not be a party to such an interest rate swap agreement, provided, however, that the Issuer's obligations to enter into a Replacement Swap Agreement pursuant to this Section 2.11 shall be expressly conditioned upon XLCA's agreement to provide a financial guaranty to the replacement swap provider on the same or similar terms as the Swap Policy. The Issuer shall be required to apply any amounts received from any replacement swap provider in connection with the Issuer's entry into a Replacement Swap Agreement (a) first, toward the satisfaction of any Swap Breakage Costs due and owing to the original Swap Counterparty under the Swap Agreement, and (b) second, to reimburse XLCA for any payments made under the Swap Policy constituting termination payments in connection with an early termination of the Swap Agreement to the extent not previously reimbursed. The Issuer shall terminate or partially terminate the Swap Agreement, in each case subject to its terms and conditions, such that at no time shall the aggregate notional amount under the Swap Agreement exceed the then outstanding aggregate principal amount of the Series A Bonds.

ARTICLE 3 AFFIRMATIVE COVENANTS OF THE PROJECT COMPANIES

Each Project Company covenants and agrees that it shall perform the covenants set forth in this Article 3, only with respect to itself and its Project (unless waived in accordance with Section 9.2 of this Agreement). The covenants set forth in this Article 3 that expressly require performance only by a specified Project Company shall be required to be performed only by such Project Company (unless such performance is waived in accordance with Section 9.2 of this Agreement).

3.1 Use of Proceeds and Revenues.

(a) Proceeds. Unless otherwise expressly provided herein or in the Depositary Agreement, each Project Company party to a Project Loan Agreement shall apply, on the Closing Date, the proceeds from the sale of the Series A Bonds borrowed from the Issuer pursuant to the Project Loan Agreement to which such Project Company is a party to (i) reimburse NRG Energy for NRG Energy's costs of having constructed and/or acquired the Projects (including interest incurred during construction), (ii) pay the Premium and all additional amounts

required to be paid to XLCA pursuant to the Policy and the Insurance and Reimbursement Agreement on the Closing Date, (iii) deposit \$11,279,588 in the Collateralized Experience Account in accordance with Section 4.3.1 of the Depositary Agreement, and (iv) pay the transaction fees and costs due on the Closing Date in connection with the Transaction to the relevant Persons.

(b) Revenues. Each Project Company shall deposit all Project Revenues, Loss Proceeds and any other amounts due to it directly into the applicable Accounts as required pursuant to the Depositary Agreement and the other Financing Documents. Each Project Company shall use its good faith reasonable efforts to cause all Project Revenues, Loss Proceeds and any other amounts due to it to be paid or otherwise delivered by Persons making such payment or delivery directly into the applicable Accounts as required pursuant to the Depositary Agreement and the other Financing Documents.

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3.2 Reporting Requirements.

(a) Notice of Material Events. Each Project Company shall promptly, upon acquiring notice or giving notice, as the case may be, or obtaining knowledge thereof, give written notice (together with copies of any underlying notices or other documentation) to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any such written notice received by it to any other Person) of:

(i) Any action, suit, arbitration, litigation, investigation or other proceeding or any dispute with any Governmental Authority relating to it or its Project and that involves (A) claims against it or its Project in excess of \$2,000,000 or potential claims against it or its Project in excess of \$4,000,000, in each case in the aggregate, (B) any injunctive, declaratory or other equitable relief that, if determined adversely to such Project Company, could reasonably be expected to have a Project Material Adverse Effect, (C) revocation, modification, failure to renew or the like of any material Permit or imposition of additional material conditions with respect thereto, or (D) any Lien (other than a Project Company Permitted Lien) related to its Project for taxes due and payable but not paid;

(ii) Any Project Event of Default or Project Inchoate Default, together with a description of any action being taken or proposed to be taken with respect thereto;

(iii) Any cancellation or suspension, or receipt of written notice of threatened or potential cancellation or suspension, of any insurance described in Exhibit C;

(iv) Any matter which has had or, in such Project Company's reasonable judgment, could reasonably be expected to have, a Project Material Adverse Effect;

(v) Any termination of, or delivery or receipt of written notice of any material default under, any of such Project Company's Major Project Documents;

(vi) Any written notice received from or given to any party to any of such Project Company's Major Project Documents (A) that an event of force majeure has occurred thereunder or (B) in respect of any claim in connection with an event of force majeure thereunder;

(vii) The scheduled or proposed conduct of any of the performance or other tests listed on Exhibit D (the "Completion

Tests"), which notice shall be given at least 10 Business Days prior to the date on which such test is scheduled or proposed to occur, and a copy of which notice shall be given to the Independent Engineer;

(viii) Any (A) fact, circumstance, condition or occurrence at, on or arising from, such Project Company's Site, Improvements or other Mortgaged Property that results in material noncompliance with, or material violation of, any Hazardous Substances Law, (B) Release or threatened Release of Hazardous Substances in, on, under or from or in connection with, such Project Company's Site, Improvements or other Mortgaged Property that has resulted or could reasonably be expected to result in material personal

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injury, material property damage or a Project Material Adverse Effect, and (C) pending or, to the knowledge of such Project Company, threatened Environmental Claim against it or, to the knowledge of such Project Company, any of its Affiliates, contractors, lessees or any other Persons, arising in connection with the development, construction, ownership, leasing, use, operation or maintenance of its Project, or such Project Company's occupying or conducting operations on or at such Project Company's Site, Improvements or other Mortgaged Property that has resulted or could reasonably be expected to result in material personal injury, material property damage or a Project Material Adverse Effect; and

(ix) Any Casualty Event or Condemnation Event, or the commencement of proceedings in connection therewith, with respect to its Project involving a probable loss of \$5,000,000 or more.

Notwithstanding the foregoing, such Project Company shall not be required to give notice of any matter described in this Section 3.2(a) that is described in any Form 10-K, 10-Q or 8-K or other form or document filed by such Project Company or any of its Affiliates with the Securities and Exchange Commission and available on the Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.

(b) Additional Documents, Periodic Reports, Etc. Each Project Company shall deliver, or cause to be delivered, to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any notices or other information provided to it pursuant to this Section 3.2(b) to any other Person):

(i) Promptly, but in no event later than 10 Business Days after it has knowledge of the execution and delivery thereof, a copy of each of its material Additional Project Documents;

(ii) Promptly, but in no event later than 10 Business Days after the effective date thereof, a copy of each material amendment, supplement or other modification to any of its Major Project Documents;

(iii) Promptly, but in no event later than 10 Business Days after receipt thereof by it, copies of any Permit listed on Part II of the Permit Schedule and any other material Permit related to its Project obtained by it after the date hereof;

(iv) With respect to the Bayou Cove Project only, promptly, but in no event later than 10 Business Days after the execution and delivery thereof, a copy of the transfer deed for the transfer of a portion of the Site relating to the Bayou Cove Project pursuant to Section 4.2.2 of the Bayou Cove EPC Agreement (Electric Interconnection Facilities);

(v) Within 17 days after each Determination Date, an Annual Operations Report substantially in the form of Exhibit E setting forth the information required therein;

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(vi) Within 17 days after each Determination Date, a certificate, substantially in the form of Exhibit F certifying that the insurance requirements set forth in Exhibit C have been implemented and are being complied with in all material respects; and

(vii) Any other documentation or other information reasonably requested by XLCA (if XLCA is the Controlling Party).

(c) Financial Statements. Each Project Company shall deliver, or cause to be delivered, to the Collateral Agent, the Trustee, the Swap Counterparty and XLCA (if XLCA is the Controlling Party) (it being acknowledged that XLCA shall have no obligation to provide any financial statements and other information provided to it under this Section 3.2(c) to any other Person) as soon as available and in any event within 120 days after the end of its fiscal year, a balance sheet (which need not be audited) of such Project Company and the related statements of income, retained earnings and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, to the extent available, each certified as to fairness of presentation by a Responsible Officer of such Project Company.

3.3 Inspection of Books and Records. Each Project Company shall keep proper books of records and accounts in accordance with GAAP and in compliance in all material respects with all applicable Legal Requirements and make the same available for inspection by the Controlling Party.

3.4 Plans and Specifications; Completion Tests.

(a) Plans and Specifications. Each Project Company shall cause a complete set of as-built plans and specifications (and all supplements thereto) related to its Project to be maintained at the corporate office at such Project Company's Site and available for inspection by the Controlling Party and the Independent Engineer; provided that neither the Bayou Cove Project Company nor the Rockford II Project Company shall be required to comply with this covenant until the Completion Date for such Project Company's Project. Without prejudice to the immediately preceding sentence, each of the Bayou Cove Project Company and the Rockford II Project Company shall, not later than eight months after the Completion Date for its Project, cause an as-built survey to be prepared and delivered to XLCA (if XLCA is the Controlling Party), the Collateral Agent, the Trustee and the Independent Engineer.

(b) Completion Tests. Each Project Company shall permit the Controlling Party and the Independent Engineer to witness the Completion Tests in respect of its Project.

3.5 Compliance with Laws. Each Project Company shall comply with, and shall ensure that its Project is operated in compliance with, and shall make such alterations to its Project as may be required for compliance with, all applicable Legal Requirements, except where non-compliance could not reasonably be expected to have a Project Material Adverse Effect.

3.6 Maintenance of Existence and Business. Each Project Company shall at all times preserve and maintain (a) its existence as a limited liability company and its good standing under the laws of (i) in the case of the Bayou Cove Project Company, the Big Cajun Project Company and the Sterlington Project Company, the State of Delaware, or (ii) in the case of the Rockford I Project Company and the Rockford II Project Company, the State of Illinois (other than as

permitted by Section 5.10), (b) its qualification to do business in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business as conducted or proposed to be conducted makes such qualification necessary except to the extent that the failure to do so could not reasonably be expected to have a Project Material Adverse Effect, and (c) its other material rights, privileges and franchises necessary or desirable in the normal conduct of its business.

3.7 Project Documents. Each Project Company shall exercise, preserve and defend all of its rights under its Project Documents, except to the extent failure to so exercise, preserve or defend such rights could not reasonably be expected to have a Project Material Adverse Effect.

3.8 Permits. Each Project Company shall obtain all Permits required at any time and from time to time in connection with such Project Company's development, construction, ownership, leasing, operation, maintenance or use of its Project, except to the extent the failure to obtain such Permits could not reasonably be expected to have a Project Material Adverse Effect.

3.9 Further Assurances.

(a) Each Project Company shall preserve the security interests granted or purported to be granted under the Collateral Documents to which it is a party and undertake all actions which are necessary or advisable under applicable law in such manner and in such jurisdictions to (i) perfect and maintain the Collateral Agent's valid and perfected security interests in its Project Company Collateral in full force and effect at all times (including the priority thereof), subject to no Liens other than Project Company Permitted Liens, and (ii) preserve and protect its Project Company Collateral and protect and enforce its right, title and interest in and to, and the rights of the Collateral Agent in and to, its Project Company Collateral, including the preparation, making or delivery of all filings and recordations, the payment of fees and other charges and the issuance of supplemental documentation.

(b) If a Project Company obtains any right, title or interest in, to or under any real property (including leasehold interests) that is material to the development, construction, ownership, leasing, operation, maintenance or use of its Project and that is not covered by the Collateral Documents to which it is a party, it shall (i) collaterally assign such right, title or interest to the Collateral Agent for the benefit of the Secured Parties, (ii) record a supplement to the Mortgage to which it is a party in form and substance reasonably satisfactory to Collateral Agent encumbering such right, title or interest by the Lien of such Mortgage, and (iii) obtain a supplement to the applicable Title Policy insuring the first priority (subject to Project Company Permitted Liens) of such Mortgage over such real property.

(c) Each Project Company shall perform such reasonable acts as may be necessary to carry out the intent of this Agreement (including its Guaranty) and the other Financing Documents to which it is a party.

(d) Each Project Company shall cause its equity interests to be "certificated securities" as defined in Article 8 of the UCC and include in its limited liability company

agreement language (consistent with Section 8-103(c) of the UCC) to the effect that such equity interests are "securities" (as such term is defined in Article 8 of the UCC) governed by Article 8 of the UCC.

3.10 Maintenance of Insurance. Each Project Company shall maintain or cause to be maintained on its behalf in effect at all times the types of insurance required pursuant to Exhibit C in the amounts and on the terms and conditions specified therein (including paragraph 5 of Exhibit C).

3.11 Taxes. Each Project Company will pay and discharge promptly when due all material Taxes and governmental charges imposed upon it or upon its income or profits or in respect of its property, in each case before the same shall become delinquent or in default and before penalties accrue thereon, unless and to the extent the same are being contested in good faith by appropriate proceedings and adequate reserves with respect thereto shall, to the extent required by GAAP have been set aside, and failure to pay or comply with the contested item could not reasonably be expected to have a Project Material Adverse Effect.

3.12 Title; Maintenance of Properties.

(a) Title. Each Project Company shall preserve and maintain good and, with respect to real property, marketable and insurable, title to its Project and all of its other assets and good, marketable and insurable fee title to, or as applicable, a valid and subsisting leasehold estate in, its Site and the Improvements and Easements related to its Project, in each case free and clear of all Liens other than Project Company Permitted Liens; provided that the covenant set forth in this Section 3.12 shall not serve to prohibit any disposition of assets expressly permitted under Section 5.4 of this Agreement.

(b) Bayou Cove. Specifically, notwithstanding the terms of the Bayou Cove EPC Agreement (Electric Interconnection Facilities), the Bayou Cove Project Company shall preserve and maintain good, marketable and insurable title to its Site and the Improvements and Easements related to its Project, in each case free and clear of all Liens other than its Project Company Permitted Liens, except for the transfer of title to Entergy Louisiana of that portion of its Site which is defined on the deed of transfer attached as Exhibit G; provided that the covenant set forth in this Section 3.12(b) shall not serve to prohibit any disposition of assets expressly permitted under Section 5.4 of this Agreement.

(c) Maintenance of Properties. Each Project Company shall maintain in good repair, working order and condition, all of its material properties used or useful in respect of the conduct of its business and from time to time make all appropriate repairs, renewals and replacements thereof, except to the extent that it shall determine in good faith not to maintain, repair, renew or replace such property if such property is no longer useful in the conduct of its business and the failure to do so could not reasonably be expected to have a Project Material Adverse Effect; provided that the covenant set forth in this Section 3.12(c) shall not serve to prohibit any disposition of assets expressly permitted under Section 5.4 of this Agreement.

3.13 Market Based Rate Authority. To the extent market-based rates are available to similarly situated generators selling Power, Ancillary Services or some combination of the

foregoing in the Applicable Markets, each Project Company shall maintain at all times its authority to sell at market-based rates wholesale Power, Ancillary Services and, to the extent permitted as an Exempt Wholesale Generator or under its FERC tariff, Other Energy-Related Products and Services in the Applicable Markets, not subject to any rate caps or mitigation measures other than rate caps and mitigation measures generally applicable to similarly situated generators selling Power, Ancillary Services or some combination of the foregoing in the Applicable Markets.

3.14 Completion.

(a) The Bayou Cove Project Company shall cause the Completion of the Bayou Cove Project to occur on or prior to June 30, 2003. In addition, the Bayou Cove Project Company shall (i) up to a maximum aggregate cap of \$2,000,000 pay any and all Uncovered Warranty Costs that are incurred or identified during any Warranty Period relating to the Bayou Cove Project, (ii) pay any and all indemnity claims made against it arising out of any Bayou Cove Equipment and Construction Contract relating to any actions or events which occurred or failed to occur prior to Completion, and (iii) pay any damages owing to any Bayou Cove Contractor under any Bayou Cove Equipment and Construction Contract or any third party claim made against it arising out of any actions or events related to any work performed to achieve Completion under a Bayou Cove Equipment and Construction Contract (the obligations contained in this Section 3.14(a), the "Bayou Cove Completion Obligations").

(b) The Rockford II Project Company shall cause the Completion of the Rockford II Project to occur on or prior to June 30, 2003. In addition, the Rockford II Project Company shall (i) pay any and all indemnity claims made against it arising out of any Rockford II Equipment and Construction Contract relating to any actions or events which occurred or failed to occur prior to Completion, and (ii) pay any damages owing to any Rockford II Contractor under any Rockford II Equipment and Construction Contract or any third party claim made against it arising out of any actions or events related to any work performed to achieve Completion under a Rockford II Equipment and Construction Contract (the obligations contained in this Section 3.14(b), the "Rockford II Completion Obligations").

3.15 Operation and Maintenance. Each Project Company shall, or shall cause its Operator to, use, operate and maintain its Project in compliance with Prudent Utility Practices, all Legal Requirements and the terms of its Project Documents.

3.16 Condemnation Event. If a Condemnation Event occurs or proceedings therefor commence with respect to a Project Company's Project, such Project Company shall (i) diligently pursue all its rights to compensation against the relevant Governmental Authority in respect of such Condemnation Event except where failure to do so could not reasonably be expected to have a Project Material Adverse Effect, and (ii) not, without the written approval of XLCA (if XLCA is the Controlling Party and which approval shall be in XLCA's absolute discretion), compromise or settle any claim in excess of \$5,000,000 against such Governmental Authority. Each Project Company consents to the participation of the Controlling Party in any condemnation proceedings, and each Project Company shall from time to time deliver to the Controlling Party all documents and instruments requested by it to permit such participation.

3.17 Sterlington PPA Legal Opinion. The Sterlington Project Company shall deliver a legal opinion to the Secured Parties and the Depositary Agent in respect of the Sterlington PPA within 30 days after its acceptance by FERC and execution by the parties thereto, which legal opinion shall be in form and substance substantially the same as the legal opinions delivered with respect to the other Major Project Documents on the Closing Date.

3.18 Fuel and Power Marketing Plan. Each Project Company shall comply, in all material respects with the power marketing, fuel supply and transmission and transportation service parameters set forth in Sections 2.2.2, 2.2.3, 3.2 and 3.3 of the Fuel and Power Marketing Plan attached to the Power Sales and Agency Agreement to which such Project Company is a party.

3.19 Unrestricted Subsidiary. Each of the Bayou Cove Project Company, the Big Cajun Project Company and the Sterlington Project Company shall maintain at all times its designation as an "Unrestricted Subsidiary" (as such term is defined in the South Central Financing Documents); provided that any such

Project Company shall not be required to comply with this covenant if it is no longer a Subsidiary of NRG South Central.

ARTICLE 4
NEGATIVE COVENANTS OF ISSUER

The Issuer covenants and agrees that the Issuer shall perform the covenants set forth in this Article 4 (unless waived in accordance with Section 9.2 of this Agreement).

4.1 Contingent Liabilities. Except for the consummation of the transactions pursuant to this Agreement and the other Financing Documents, the Issuer shall not become liable as a surety, guarantor, accommodation endorser or otherwise, for or upon the obligation of any other Person; provided, however, that this Section 4.1 shall not be deemed to prohibit the incurrence, creation, assumption or existence of Issuer Permitted Debt or Issuer Permitted Liens.

4.2 Limitations on Liens. The Issuer shall not create, assume or suffer to exist any Lien securing a charge or obligation on any Issuer Collateral, real or personal, whether now owned or hereafter acquired, except Issuer Permitted Liens.

4.3 Indebtedness.

(a) The Issuer shall not incur, create, assume or permit to exist any Debt, except Issuer Permitted Debt.

(b) Notwithstanding anything to the contrary in Section 4.3(a), and in addition to the requirements set forth in Section 3.02 of the Indenture, Additional Bonds shall not be authenticated, delivered or issued under the Indenture and no Debt shall be incurred by or on behalf of the Issuer in respect of any Additional Bonds unless (i) no Issuer Event of Default or Issuer Inchoate Default has occurred and is continuing or would occur as a result of such authentication, delivery, issuance or incurrence, (ii) each of Moody's and S&P has confirmed in writing that such authentication, delivery, issuance or incurrence will not result in downgrade of (x) the ratings for the Series A Bonds (after giving effect to the Policy) below Aaa by Moody's

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and AAA by S&P, and (y) the Shadow Ratings for the Series A Bonds below Baa3 by Moody's and BBB- by S&P, and (iii) XLCA shall have agreed, in its absolute discretion, to the issuance of the Additional Bonds and to unconditionally and irrevocably guaranty the scheduled payments of principal of and interest on such Additional Bonds in the same manner and to the same extent as scheduled payments of principal of and interest on the Series A Bonds are guaranteed under the Policy. The Collateral Agent shall, on behalf of the Secured Parties, execute such documents and take such other actions as reasonably requested by, and at the expense of, the Issuer to effect and evidence the issuance of Additional Bonds pursuant to Section 3.02 of the Indenture.

4.4 Sale of Assets. The Issuer shall not sell, lease (as lessor), assign, transfer or otherwise dispose of any of its material properties or assets, whether now owned or hereafter acquired (other than in accordance with Section 9.01 of the Indenture); provided that this Section 4.4 shall not be deemed to prohibit the grant, creation or assumption of Issuer Permitted Liens. The Issuer shall not sell, assign, transfer or otherwise dispose of any Project Loan Note other than pursuant to, and in connection with, a Permitted Peaker Buyout.

4.5 Distributions.

(a) The Issuer shall not directly or indirectly (i) make or declare any distribution (in cash, property or obligation) on, or make any other

payment on account of, any equity interest in the Issuer, (ii) make any payment in respect of Subordinated Debt or (iii) make any other payment from the Distribution Account (whether to a Project Company, any Affiliate of the Issuer or any Project Company or any other Person) (each such distribution or payment, a "Restricted Payment") unless:

(i) no Issuer Event of Default, Issuer Inchoate Default or Project Event of Default pursuant to Section 7.2(n) of this Agreement (Interconnection Solution) has occurred and is continuing and such Restricted Payment will not result in an Issuer Event of Default or an Issuer Inchoate Default;

(ii) subject to any reduction in the amount of the Restricted Payment in accordance with Section 4.5(b) of this Agreement, the amount of such Restricted Payment is limited to, and such Restricted Payment is made from, Account Funds in the Distribution Account and in accordance with Section 4.6 of the Depositary Agreement;

(iii) the Restricted Payment is made on a Restricted Payment Date;

(iv) as of the Restricted Payment Date, the Available Collateralized Experience Funds equal or exceed the Collateralized Experience Amount as of such date; and

(v) the Issuer shall have delivered to Collateral Agent, the Trustee, the Swap Counterparty and XLCA, at least five Business Days prior to the proposed Restricted Payment Date, a certificate dated as of the proposed Restricted Payment Date and duly executed by a Responsible Officer of the Issuer, certifying to the effect that each of the foregoing conditions and the other applicable conditions of this Section 4.5 shall have been satisfied as of such date and XLCA (if it is the Controlling Party), acting in its absolute discretion, shall have confirmed in writing to the Collateral Agent XLCA's

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agreement with such certificate (provided that failure by XLCA to make such confirmation prior to the proposed Restricted Payment Date shall be deemed to be such confirmation).

(b) If there shall have occurred and be continuing a Project Event of Default or an Inchoate Project Block Condition in respect of any Project Company, the Issuer shall reduce the Restricted Payment to be made by it pursuant to Section 4.5(a) of this Agreement by an amount equal to the Project Company Blocked Amount for such Project Company. Subject to Section 4.5(d), such Project Company Blocked Amount shall be deemed to be Account Funds in the Distribution Account not disbursed within 30 days after an Annual Scheduled Payment Date and, accordingly, the Collateral Agent shall direct the Depositary Agent to promptly transfer such Project Company Blocked Amount to the Revenue Account to be applied in accordance with the Depositary Agreement in the same manner as Account Funds in the Distribution Account that are not disbursed in accordance with Section 4.6.2 of the Depositary Agreement by the 30th day following an Annual Scheduled Payment Date.

(c) Notwithstanding anything to the contrary in Section 4.5(a), if the Issuer is not permitted to make a Restricted Payment pursuant to Section 4.5(a) on any Initial Restricted Payment Date solely because of an Inchoate Block Condition:

(i) the amount of the Restricted Payment that the Issuer would have been permitted to make pursuant to Section 4.5(a) had no such Inchoate Block Condition been continuing on such Initial Restricted

Payment Date (the "Blocked Restricted Payment Amount") shall not be transferred from the Distribution Account to the Revenue Account until the earlier of the end of the Subsequent Restricted Payment Period and the occurrence of an Issuer Event of Default (at which time the Blocked Restricted Payment Amount or any part thereof not previously applied as permitted by Section 4.5(c)(ii) shall be deemed to be Account Funds in the Distribution Account not disbursed within 30 days after an Annual Scheduled Payment Date and, accordingly, the Collateral Agent shall direct the Depository Agent to promptly transfer the Blocked Restricted Payment Amount or such part thereof to the Revenue Account to be applied in accordance with the Depository Agreement in the same manner as Account Funds in the Distribution Account that are not disbursed in accordance with Section 4.6.2 of the Depository Agreement by the 30th day following an Annual Scheduled Payment Date); and

(ii) prior to the end of the Subsequent Restricted Payment Period, and only if such Inchoate Block Condition shall have been cured by, or on behalf of, the Issuer or shall have been waived by the Controlling Party prior to maturing into or becoming an Issuer Event of Default, the Issuer may use the Blocked Restricted Payment Amount to make a Restricted Payment; provided that the conditions set forth in Section 4.5(a)(i) through (v) are satisfied (the date upon which such payment is made, the "Subsequent Restricted Payment Date").

(d) Notwithstanding anything to the contrary in Section 4.5(b), if the Issuer is not permitted to make a Restricted Payment pursuant to Section 4.5(b) on any Initial Restricted Payment Date solely because of an Inchoate Project Block Condition:

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(i) the Project Company Blocked Amount shall not be transferred from the Distribution Account to the Revenue Account until the earlier of the end of the Subsequent Project Restricted Payment Period and the occurrence of a Project Event of Default (at which time the Project Company Blocked Amount or any part thereof not previously applied as permitted by Section 4.5(d)(ii) shall be deemed to be Account Funds in the Distribution Account not disbursed within 30 days after an Annual Scheduled Payment Date and, accordingly, the Collateral Agent shall direct the Depository Agent to promptly transfer the Project Company Blocked Amount or such part thereof to the Revenue Account to be applied in accordance with the Depository Agreement in the same manner as Account Funds in the Distribution Account that are not disbursed in accordance with Section 4.6.2 of the Depository Agreement by the 30th day following an Annual Scheduled Payment Date); and

(ii) prior to the end of the Subsequent Project Restricted Payment Period, and only if such Inchoate Project Block Condition shall have been cured by, or on behalf of, the relevant Project Company or shall have been waived by the Controlling Party prior to maturing into or becoming a Project Event of Default, the Issuer may use the Project Company Blocked Amount to make a Restricted Payment; provided that the conditions set forth in Section 4.5(a)(i) through (v) are satisfied (the date upon which such payment is made, the "Subsequent Project Restricted Payment Date").

(e) Even if all of the conditions set forth in Section 4.5(a) or 4.5(b) of this Agreement have not been satisfied as of a proposed Restricted Payment Date, the Issuer may make distributions ("Tax Distributions") for Federal, state or local income tax payments in an amount not to exceed the amount that the Issuer and the Project Companies would be required to pay if such Persons were tax paying entities forming a consolidated group for Federal

income tax purposes or a similar consolidated, combined or unitary group for state or local income tax purposes (the "Tax Group"), which amount shall be assumed to equal the product of (A) the net income of the Tax Group for Federal, state or local income tax purposes multiplied by (B) the highest marginal Federal, state or local income tax rate at the time applicable to "C" corporations; provided that the net income of the Tax Group shall be calculated based on the assumption that the Tax Group is not part of any other consolidated group (or similar group for state or local income tax purposes) and that all of the Tax Group's tax attributes and benefits (including, without limitation, deductions, credits, refunds, carryovers and carrybacks) shall be applied solely with respect to the Tax Group's income; and provided, further, that no Tax Distribution pursuant to this Section 4.5(e) shall be permitted, if an Issuer Event of Default or Issuer Inchoate Default has occurred and is continuing or would result from such Tax Distributions.

(f) Notwithstanding anything to the contrary in Section 4.5(e), if the Issuer is not permitted to make a Tax Distribution pursuant to Section 4.5(e) solely because there shall be continuing an Issuer Inchoate Default:

(i) the amount of the Tax Distribution that the Issuer would have been permitted to make pursuant to Section 4.5(e) had no such Issuer Inchoate Default been continuing (the "Tax Distribution Amount") shall not be transferred from the Distribution Account to the Revenue Account until the earlier of the end of the Subsequent Tax

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Payment Period and the occurrence of an Issuer Event of Default (at which time the Tax Distribution Amount or any part thereof not previously applied as permitted by Section 4.5(f)(ii) shall be deemed to be Account Funds in the Distribution Account not disbursed within 30 days after an Annual Scheduled Payment Date and, accordingly, the Collateral Agent shall direct the Depositary Agent to promptly transfer the Tax Distribution Amount or such part thereof to the Revenue Account to be applied in accordance with the Depositary Agreement in the same manner as Account Funds in the Distribution Account that are not disbursed in accordance with Section 4.6.2 of the Depositary Agreement by the 30th day following an Annual Scheduled Payment Date); and

(ii) prior to the end of the Subsequent Tax Payment Period, and only if such Issuer Inchoate Default shall have been cured by, or on behalf of, the Issuer or shall have been waived by the Controlling Party prior to maturing into or becoming an Issuer Event of Default, the Issuer may use the Tax Distribution Amount to make a Tax Distribution in the amount set forth, and in the manner contemplated, in Section 4.5(e).

(g) Notwithstanding anything to the contrary herein or in any other Financing Document, neither (i) Excluded Revenues nor (ii) amounts payable to, or permitted to be disbursed to, NRG Energy pursuant to the Depositary Agreement shall constitute Restricted Payments subject to this Section 4.5 and such Excluded Revenues and amounts shall be permitted to be disbursed to NRG Energy or any Affiliate thereof without regard for the conditions set forth in this Section 4.5.

4.6 Investments. The Issuer shall not make any investments (whether by purchase of stocks, bonds, notes or other securities, loan, extension of credit, advance or otherwise) other than (a) Permitted Investments made pursuant to Section 5.1 of the Depositary Agreement, and (b) the investments provided for in the Financing Documents.

4.7 Transactions With Affiliates. The Issuer shall not enter into any transaction or agreement (or any transaction under or pursuant to any

transaction or agreement) with any of its Affiliates other than (a) transactions provided for in or expressly permitted by the Financing Documents, (b) transactions or agreements certified by a Responsible Officer of the Issuer as having terms that are not materially less favorable than the terms the Issuer would obtain in an arm's-length transaction with a person that is not an Affiliate, or (c) transactions or agreements between or among only the Issuer and/or the Project Companies not otherwise prohibited by the terms of any Financing Document.

4.8 ERISA. The Issuer shall not establish, maintain, contribute to or become obligated to contribute to any ERISA Plan.

4.9 Liquidation; Amendment of Organizational Documents.

(a) The Issuer shall not liquidate or dissolve itself (or suffer any liquidation or dissolution) or amend its organizational documents in any material respect (except, in respect of such amendment of its organizational documents, (i) as required to comply with the "special purpose entity" requirements or similar criteria of any Rating Agency or (ii) in connection with a Permitted Change of Control).

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(b) Section 9.01 of the Indenture shall govern the Issuer's rights in respect of the transactions expressly referred to in such Section 9.01 (and reference is made herein to Section 9.01(4) of the Indenture and the right of XLCA (at any time when there is no Insurer Default) to consent, in its absolute discretion, to any transaction referred to therein prior to its consummation). Upon any consolidation of the Issuer with, or merger of the Issuer into, any other Person in accordance with Section 9.01 of the Indenture, the successor Person formed by such consolidation or into which the Issuer is merged or to which any conveyance, transfer or lease is made in accordance with Section 9.01 of the Indenture shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Agreement and the other Financing Documents with the same effect as if such successor Person had been named as the Issuer in this Agreement and the other Financing Documents, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under the Financing Documents.

4.10 Accounts. The Issuer shall not maintain, establish or use any bank, deposit or securities accounts other than the Accounts and the Closing Date Account.

4.11 Name and Location; Fiscal Year. The Issuer shall not (a) change its name, the location of its principal place of business, the location of the Issuer Collateral, its jurisdiction of organization or its organizational identification number without notice to the Collateral Agent at least 30 days prior to such change, or (b) for so long as XLCA is the Controlling Party, change its fiscal year without XLCA's prior written consent.

4.12 Assignment. The Issuer shall not assign its rights or obligations hereunder or under any other Financing Documents, except as expressly permitted under this Agreement.

4.13 No SEC Registration. The Issuer shall not, and shall not permit any Person acting on its behalf to, subject the offering, issuance or sale of the Series A Bonds to Section 5 of the Securities Act.

ARTICLE 5 NEGATIVE COVENANTS OF PROJECT COMPANIES

Each Project Company covenants and agrees that it shall perform the covenants set forth in this Article 5, only with respect to itself and its Project (unless waived in accordance with Section 9.2 of this Agreement). The covenants set forth in this Article 5 that expressly require

performance only by a specified Project Company shall be required to be performed only by such Project Company (unless such performance is waived in accordance with Section 9.2 of this Agreement).

5.1 Contingent Liabilities. Except for the consummation of the transactions pursuant to this Agreement and the other Financing Documents, such Project Company shall not become liable as a surety, guarantor, accommodation endorser or otherwise, for or upon the obligation of any other Person; provided, however, that this Section 5.1 shall not be deemed to prohibit the incurrence, creation, assumption or existence of Project Company Permitted Debt or Project Company Permitted Liens.

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5.2 Liens. Such Project Company shall not create, assume or suffer to exist any Lien securing a charge or obligation on any of its Project Company Collateral, whether now owned or hereafter acquired, except Project Company Permitted Liens.

5.3 Indebtedness. Such Project Company shall not incur, create, assume or permit to exist any Debt, except Project Company Permitted Debt.

5.4 Asset Dispositions. Such Project Company shall not sell, lease (as lessor), license (as licensor), assign, pledge, transfer or otherwise dispose of any of its assets (including any Project Company Collateral), whether now owned or hereafter acquired, other than (a) sales of goods, products and/or services in the ordinary course of business as contemplated by its Project Documents, (b) sales of assets that are replaced with substantially similar assets, (c) sales for fair market value of worn out or obsolete assets, or of surplus assets or land, that are not useful or necessary in connection with the development, construction, ownership, leasing, operation, maintenance or use of its Project, in an aggregate amount (over the entire term of this Agreement) not to exceed \$10,000,000 (provided that such aggregate amount shall be increased from time to time by reference to the United States Department of Labor Consumer Price Index), (d) sales or transfers of assets required by the terms of its Project Documents (provided that the Bayou Cove Project Company shall not be permitted to transfer the entire Site of the Bayou Cove Project pursuant to the Bayou Cove EPC Agreement (Interconnection Facilities)), and (e) in connection with a Permitted Peaker Buyout, provided that this Section 5.4 shall not be deemed to prohibit the grant or creation of any Project Company Permitted Liens. If a Project Company is permitted to dispose of assets pursuant to this Section 5.4, as certified to the Collateral Agent by a Responsible Officer of such Project Company, the Collateral Agent shall then take all actions reasonably requested by such Project Company in writing in order to release the Liens of the Collateral Agent on such assets (including the execution of UCC-3 termination statements and deeds of reconveyance).

5.5 Business Activities. Such Project Company shall not engage in any activities other than (a) the development, ownership, leasing, construction, operation, maintenance and use of its Project as contemplated by the Operative Documents, (b) other activities expressly permitted by the Financing Documents, and (c) activities reasonably incidental thereto. Such Project Company shall not make any alterations, modifications, renovations or improvements to its Project other than those that (i) are required to comply with Legal Requirements or (ii) are in accordance with Prudent Utility Practices.

5.6 Subsidiaries, etc.; Investments.

(a) Subsidiaries, etc. Such Project Company shall not (a) create or acquire any Subsidiary, (b) become a general or limited partner in any partnership or a member in any limited liability company, (c) become a joint venturer in any joint venture, or (d) create or hold any equity interests in any other Person.

(b) Investments. Such Project Company shall not make any

investments (whether by purchase of stocks, bonds, notes or other securities, loan, extension of credit, advance or otherwise) other than (i) Permitted Investments in accordance with Article V of the

Depository Agreement and (ii) other investments expressly permitted in the Financing Documents.

5.7 Distributions. Such Project Company shall not directly or indirectly (a) make or declare any distribution (in cash, property or obligation) on, or make any other payment on account of, any equity interest in Project Company, (b) make any payment in respect of Subordinated Debt, or (c) make any other payment from the Distribution Account (whether to a Project Company, any Affiliate of the Issuer or any Project Company or any other Person) other than distributions or payments from the Distribution Account in accordance with Section 4.6.2 of the Depository Agreement and Section 4.5 of this Agreement.

5.8 Transactions With Affiliates. Such Project Company shall not enter into any transaction or agreement with any of its Affiliates, other than (a) transactions provided for in or expressly permitted by the Operative Documents, (b) transactions or agreements between or among only the Issuer and/or the other Project Companies not otherwise prohibited by the terms of any Financing Document, or (c) transactions or agreements certified to the Controlling Party by a Responsible Officer of such Project Company as having terms that are not materially less favorable to such Project Company than the terms such Project Company would obtain in an arm's-length transaction with a Person that is not its Affiliate; provided that, in respect of each transaction or agreement permitted pursuant to paragraph (c) of this Section 5.8, Project Company shall perform its obligations and exercise its rights under any such transaction or agreement as if such transaction or agreement was an arm's-length transaction with a Person that is not its Affiliate.

5.9 ERISA. Such Project Company shall not establish, maintain, contribute to or become obligated to contribute to any ERISA Plan.

5.10 Merger or Consolidation; Liquidation; Amendment of Organizational Documents.

(a) Such Project Company shall not consolidate with or merge into any other Person or permit any Person to consolidate with or merge into such Project Company or convey, transfer or lease its properties and assets substantially as an entirety to such Project Company, unless:

(i) immediately after giving effect to such transaction, no Project Company Event of Default or Project Inchoate Default with respect to such Project Company shall have occurred and be continuing;

(ii) if, as a result of any such consolidation, merger or conveyance, transfer or lease, properties or assets of such Project Company other than the Collateral would become subject to a mortgage, pledge, lien, security interest or other encumbrance that would not be permitted by this Agreement, such Project Company or such successor Person, as the case may be, shall take such steps as shall be necessary effectively to secure the Bonds of each series equally and ratably with (or prior to) all indebtedness secured thereby;

(iii) such Project Company has delivered to the Trustee, with a copy to XLCA, an Officer's Certificate (as such term is defined in the Indenture) and an Opinion of

Counsel (as such term is defined in the Indenture), each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture complies with Article Nine of the Indenture and that all conditions precedent in this Agreement and the Indenture provided for relating to such transaction have been complied with; and

(iv) at any time when XLCA is the Controlling Party, XLCA consents in writing, in its absolute discretion, to such transaction prior to the consummation thereof.

(b) Upon any consolidation of such Project Company with, or merger of the Project Company into, any other Person in accordance with Section 5.10(a), the successor Person formed by such consolidation or into which such Project Company is merged shall succeed to, and be substituted for, and may exercise every right and power of, such Project Company under this Agreement and the other Financing Documents with the same effect as if such successor Person had been named as such Project Company in this Agreement and the other Financing Documents, and thereafter the predecessor Person shall be relieved of all obligations and covenants under the Financing Documents.

(c) Such Project Company shall not liquidate or dissolve itself (or suffer any liquidation or dissolution) or amend its organizational documents in any material respect (except, in respect of such amendment of its organizational documents, (i) as required to comply with the "special purpose entity" requirements or similar criteria of any Rating Agency and (ii) in connection with a Permitted Change of Control).

(d) Nothing in this Section 5.10 shall be deemed to prohibit any Permitted Peaker Buyout or Permitted Change of Control.

5.11 Amendments to Project Documents. Such Project Company shall not terminate, assign its rights under, amend, modify, supplement or waive, or permit or consent to the termination, amendment, modification, supplement or waiver of, any provision of, or give any consent under (any such action, a "Project Document Action") (a) Section 2.2.2, 2.2.3, 3.2 or 3.3 of the Fuel and Power Marketing Plan attached to the Power Sales and Agency Agreement to which such Project Company is a party or any requirement under such Power Sales and Agency Agreement that such Project Company or NRG Power Marketing comply with such Fuel and Power Marketing Plan (i) if XLCA is the Controlling Party, without the written consent of XLCA (which consent shall be given or withheld in XLCA's absolute discretion), or (ii) if XLCA is not the Controlling Party, if such Project Document Action could reasonably be expected to have a Project Material Adverse Effect, and (b) any of its other Major Project Documents if such Project Document Action could reasonably be expected to have a Project Material Adverse Effect.

5.12 Accounts. Project Company shall not maintain, establish or use any bank, deposit or securities accounts other than (a) the Accounts, and (b) such other local bank, deposit or securities accounts as shall be necessary to facilitate the performance by the Bayou Cove Project Company and the Rockford II Project Company of their obligations under Section 3.14 and/or the performance by NRG Energy of its obligations under Section 2.5 of the Contingent Equity Guaranty.

5.13 Name and Location; Fiscal Year. Such Project Company shall not (a) change its name, the location of its principal place of business, the location of its Project Company Collateral, its jurisdiction of organization or its organizational identification number without notice to the Collateral Agent at

least 30 days prior to such change, or (b) for so long as XLCA is the Controlling Party, change its fiscal year without XLCA's written consent.

5.14 Assignment. Such Project Company shall not assign its rights or obligations hereunder or under any of the other Financing Documents to which it is a party, except as expressly permitted under this Agreement.

5.15 Acquisition of Real Property. Such Project Company shall not acquire or lease any real property or other interest in real property (excluding (x) the acquisition (but not the exercise) of any options to acquire any such interests in real property and (y) the acquisition of any Easements related thereto) unless: (a) it shall have delivered to the Collateral Agent (i) an environmental indemnity agreement, in form and substance reasonably satisfactory to XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant), pursuant to which, among other things, an indemnitor reasonably satisfactory to XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant) indemnifies the Issuer, such Project Company and the Secured Parties from any and all claims, losses, diminutions in value of such real property, damages or other liabilities related to or arising from Hazardous Substances then in, on or under such real property or otherwise caused by or attributable to such indemnitor; or (ii) an environmental insurance policy, in form and substance, and from an insurance carrier, reasonably satisfactory to XLCA (or, if XLCA is not the Controlling Party, an independent environmental consultant), which provides the same protection as described for the environmental indemnity agreement above or (b) (i) it shall have delivered to the Collateral Agent a Phase I environmental report prepared by an environmental consultant reasonably satisfactory to XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant) with respect to such real property in accordance with ASTM standards, (along with a corresponding reliance letter from the environmental consultant in form and substance reasonably satisfactory to XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant)), stating that there is no evidence of a Release or threatened Release that could reasonably be expected to result in a future Release of any Hazardous Substance in, on, under or at such real property and that no additional investigation (including a Phase II environmental assessment) is recommended, and (ii) if evidence was found of a Release or threatened Release that could reasonably be expected to result in a future Release of any Hazardous Substance in, on, under or at such real property or an additional investigation (including a Phase II environmental assessment) is recommended in such Phase I environmental report, it shall have delivered to the Collateral Agent a Phase II environmental report (or other recommended investigation) with respect to such real property, pursuant to a scope of work reasonably satisfactory to XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant) (along with a corresponding reliance letter from the environmental consultant in form and substance reasonably satisfactory to XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant)), confirming, to the reasonable satisfaction of XLCA (or if XLCA shall not be the Controlling Party, an independent environmental consultant)), either (A) that no Release or threatened Release of any Hazardous Substance has occurred in, on, under or at such real property, or (B) if a Release or threatened Release that could reasonably be expected to result in a future Release of any Hazardous

Substance has occurred in, on, under or at such real property, that such Release or threatened Release that could reasonably be expected to result in a future Release of any Hazardous Substances either does not trigger any reporting or remediation obligations under Hazardous Substances Law or has been remediated to acceptable levels under Hazardous Substances Law.

5.16 Additional Project Documents.

(a) Such Project Company shall not enter into or become a

party to any Additional Project Document to the extent that the execution, delivery or performance of such Additional Project Document could reasonably be expected to have a Project Material Adverse Effect.

(b) If such Project Company enters into any Major Project Document, such Project Company shall deliver to the Collateral Agent a Consent from the third party under such Major Project Document in substantially the form of Exhibit 3.1(f)(ii) to the Insurance and Reimbursement Agreement.

5.17 Use of Project Site. Such Project Company shall not use, or permit to be used, its Site for any purpose other than as contemplated by the Operative Documents to which it is a party.

5.18 Hazardous Substances. Such Project Company shall not, and shall not allow any of its Affiliates, contractors or agents, or any other Person with the consent, or under the control of, such Project Company or any of its Affiliates, contractors or agents, to Release any Hazardous Substances in violation of any Hazardous Substances Law or other Legal Requirement if such Release could reasonably be expected to have a Project Material Adverse Effect.

ARTICLE 6
GUARANTY

6.1 Guaranty.

(a) Each Project Company, as primary obligor and not merely as surety, absolutely, unconditionally and irrevocably and jointly and severally with each other Project Company guarantees to the Secured Parties the full and punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all of the Bond Obligations, the Reimbursement Obligations and the Swap Obligations of the Issuer under the Financing Documents, together with the payment in full of all fees and expenses incurred by the Collateral Agent or any other Secured Party in enforcing any such Obligations or the terms hereof, including reasonable fees and expenses of its legal counsel and agents (collectively, the "Guaranteed Obligations"), and agrees that if, for any reason, the Issuer shall fail to pay when due any of the Guaranteed Obligations, such Project Company will pay the same forthwith. Each Project Company waives notice of acceptance of its Guaranty and of any obligation to which it applies or may apply under the terms hereof, and waives promptness, diligence, presentment, demand of payment or performance, notice of dishonor or non-payment or non-performance, protest, or notice of protest, of any such obligations, suit or taking other action by any Secured Party against, and

giving any notice of default or other notice to, or making any demand on, any party liable thereon (including any Project Company).

(b) If, notwithstanding the representation and warranty set forth in Section 2.2(aa) of the Insurance and Reimbursement Agreement or anything to the contrary herein, enforcement of the liability of any Project Company under its Guaranty for the full amount of the Guaranteed Obligations would be an unlawful or voidable transfer under any applicable fraudulent conveyance or fraudulent transfer law or any comparable law, then the liability of such Project Company hereunder shall be reduced to the highest amount for which such liability may then be enforced without giving rise to an unlawful or voidable transfer under any such law.

6.2 Guaranty Absolute. The Guaranty of each Project Company is a primary obligation of such Project Company and is an absolute, unconditional, continuing and irrevocable guaranty of payment in full in cash of the Guaranteed Obligations and not of collectibility, and is in no way conditioned on or contingent upon any attempt to enforce in whole or in part the Issuer's liabilities and obligations to the Secured Parties. If the Issuer shall fail to

pay in full in cash any of the Guaranteed Obligations to any Secured Party as and when they are due, the Project Companies shall forthwith pay such Guaranteed Obligations immediately (in immediately available funds in Dollars) to an account designated by the Collateral Agent. Each failure by the Issuer to pay any Guaranteed Obligation strictly in accordance with the terms of each Financing Document under which such Guaranteed Obligation arises, regardless of any Legal Requirement now or hereafter in effect in any jurisdiction, shall give rise to a separate cause of action herewith, and separate suits may be brought hereunder as each cause of action arises.

6.3 Rights and Obligations Absolute and Unconditional. All rights of the Secured Parties and all obligations of each Project Company in respect of its Guaranty hereunder shall be absolute and unconditional irrespective of:

(a) any lack of validity, legality or enforceability of any Financing Document;

(b) the failure of any Secured Party:

(i) to assert any claim or demand or to enforce any right or remedy against the Issuer, any Project Company or any other Person (including any other guarantor) under the provisions of any Financing Document or otherwise, or

(ii) to exercise any right or remedy against any other guarantor of, or collateral securing, any of the Obligations;

(c) any change in the time, manner or place of payment of, or in any other term of, any of the Obligations, or any other extension or renewal of any obligation of the Issuer or any Project Company;

(d) any reduction, limitation, impairment or termination of any of the Obligations for any reason (other than the written agreement of all of the Secured Parties to terminate the Obligations in full), including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to, and Project Company hereby waives any right to or

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claim of, any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any obligation of the Issuer, any Project Company or otherwise, other than Project Company's indefeasible payment in full of the Guaranteed Obligations;

(e) any amendment to, rescission, waiver or other modification of, or any consent to departure from, any of the terms of any Financing Document other than its Guaranty;

(f) any addition, exchange, release, surrender or non-perfection of any collateral, or any amendment to or waiver or release or addition of, or consent to departure from, any other security interest held by any Secured Party securing any of the Obligations;

(g) any sale, exchange, release or surrender of, realization upon or other manner or order of dealing with any property by whomsoever pledged or mortgaged to secure or howsoever securing the Obligations or any liabilities or obligations (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof and/or any offset there against;

(h) the application of any sums by whomsoever paid or howsoever realized to any obligations and liabilities of the Issuer or any Project Company to the Secured Parties under the Financing Documents in the

manner provided therein regardless of what obligations and liabilities remain unpaid;

(i) any action or failure to act in any manner referred to in this Guaranty which may deprive Project Company of its right to subrogation against the Issuer or any other Project Company to recover full indemnity for any payments or performances made pursuant to its Guaranty or of its right of contribution against any other party; or

(j) any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Issuer, any Project Company, any surety or any guarantor.

6.4 Guaranty Continuing. Each Project Company's Guaranty is a continuing Guaranty and all obligations to which it applies or may apply under the terms hereof shall be conclusively presumed to have been created in reliance hereon. In the event that, notwithstanding the provisions of Section 6.1, any Project Company's Guaranty shall be deemed revocable in accordance with applicable Legal Requirements, then any such revocation shall become effective only upon receipt by the Collateral Agent of written notice of revocation signed by such Project Company. No revocation or termination hereof shall affect in any manner rights arising under any Project Company's Guaranty with respect to Guaranteed Obligations arising prior to receipt by the Collateral Agent of written notice of such revocation or termination.

6.5 Waivers. Each Project Company hereby waives and relinquishes all rights and remedies accorded by applicable law to sureties or guarantors and agrees not to assert or take advantage of any such rights or remedies, including (a) any right to require the Collateral Agent or any other Secured Party to proceed against the Issuer, any Project Company or any other Person or to proceed against or exhaust any security held by the Collateral Agent or any other

Secured Party at any time or to pursue any other remedy in the Collateral Agent's or any other Secured Party's power before proceeding against such Project Company, (b) any defense that may arise by reason of the incapacity, lack of power or authority, dissolution, merger, termination or disability of the Issuer, any Project Company or any other Person or the failure of the Collateral Agent or any other Secured Party to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of the Issuer, any Project Company or any other Person, (c) demand, presentment, protest and notice of any kind except as provided herein, including notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of the Issuer, any Project Company, the Collateral Agent, any other Secured Party, any endorser or creditor of the Issuer, any Project Company or on the part of any other Person under this or any other instrument in connection with any obligation or evidence of indebtedness held by the Collateral Agent or any other Secured Party as collateral or in connection with any Guaranteed Obligation, (d) any defense based upon an election of remedies by the Collateral Agent or any other Secured Party, including an election to proceed by non-judicial rather than judicial foreclosure, which destroys or otherwise impairs the subrogation rights of any Project Company, the right of any Project Company to proceed against the Issuer or any other Project Company for reimbursement, or both, (e) any defense based on any offset against any amounts which may be owed by any Person to any Project Company for any reason whatsoever, (f) any defense based on any act, failure to act, delay or omission whatsoever on the part of the Issuer or any Project Company or the failure by the Issuer or any Project Company to do any act or thing or to observe or perform any covenant, condition or agreement to be observed or performed by it under the Financing Documents, (g) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that

of the principal; provided that, upon payment or performance in full of the Guaranteed Obligations, a Project Company's Guaranty shall no longer be of any force or effect, (h) any defense, setoff or counterclaim which may at any time be available to or asserted by the Issuer or any Project Company against the Collateral Agent, any other Secured Party or any other Person under the Financing Documents, (i) any duty on the part of the Collateral Agent or any other Secured Party to disclose to any Project Company any facts the Collateral Agent or any other Secured Party may now or hereafter know about the Issuer or any Project Company, regardless of whether the Collateral Agent or such Secured Party have reason to believe that any such facts materially increase the risk beyond that which any Project Company intends to assume, or have reason to believe that such facts are unknown to any Project Company, or have a reasonable opportunity to communicate such facts to any Project Company, since each Project Company acknowledges that it is fully responsible for being and keeping informed of the financial condition of the Issuer and the Project Companies and of all circumstances bearing on the risk of non-payment or non-performance of any obligations and liabilities hereby guaranteed, (j) any defense based on any change in the time, manner or place of any payment or performance under, or in any other term of, the Financing Documents or any other amendment, renewal, extension, acceleration, compromise or waiver of or any consent or departure from the terms of the Financing Documents, (k) any defense arising because of the Collateral Agent's or any other Secured Party's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code, and (l) any defense based upon any borrowing or grant of a security interest under Section 364 of the Federal Bankruptcy Code.

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6.6 Acknowledgments. Each Project Company acknowledges that it has been provided with a copy of each of the Financing Documents and has read and is familiar with the provisions of each of the Financing Documents.

6.7 Subordination. All existing and future indebtedness of, or other obligation owed by, the Issuer or any Project Company to any other Project Company is hereby subordinated to all of the Guaranteed Obligations on the same terms as required in respect of subordinated Debt of the Issuer and the Project Companies pursuant to this Agreement as set forth in Exhibit H to this Agreement.

6.8 Subrogation. So long as the Financing Documents remain in effect and until all of the Guaranteed Obligations have been paid in full, (a) no Project Company shall have any right of subrogation and each Project Company waives all rights to enforce any remedy which the Secured Parties now have or may hereafter have against the Issuer or any other Project Company, and waives the benefit of, and all rights to participate in, any security now or hereafter held by the Collateral Agent or any other Secured Party from the Issuer or any of the Project Companies, and (b) each Project Company waives any claim, right or remedy which it may now have or hereafter acquire against the Issuer or any other Project Company that arises hereunder and/or from the performance by it hereunder, including any claim, remedy or right of subrogation, reimbursement, exoneration, contribution, indemnification, or participation in any claim, right or remedy of the Secured Parties against the Issuer or any Project Company, or any security which the Secured Parties now have or hereafter acquire, whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise. Any amount paid to any Project Company on account of any such subrogation rights prior to the indefeasible payment in full in cash of the Obligations (including the Guaranteed Obligations) and the termination of all other obligations of the Secured Parties under the Financing Documents shall be held in trust for the benefit of the Collateral Agent and shall immediately thereafter be paid to the Collateral Agent for the benefit of the Secured Parties.

6.9 Bankruptcy.

(a) So long as the Financing Documents remain in effect and until all of the Obligations have been paid in full, none of the Project Companies shall, without the prior written approval of the Controlling Party, commence, or join with any other Person in commencing, any bankruptcy, reorganization, or insolvency proceeding against the Issuer or any other Project Company. The obligations of each Project Company under its Guaranty shall not be altered, limited or affected by any proceeding, voluntary or involuntary, involving the bankruptcy, reorganization, insolvency, receivership, liquidation or arrangement of the Issuer, NRG Energy or any Project Company, or by any defense which the Issuer or any other Project Company may have by reason of any order, decree or decision of any court or the administrative body resulting from any such proceeding.

(b) So long as the Financing Documents remain in effect and until all of the Guaranteed Obligations have been paid in full, to the extent of any Guaranteed Obligation, each Project Company shall file, in any bankruptcy or other proceeding in which the filing of claims is required or permitted by Legal Requirements, all claims which such Project Company may have against the Issuer or any other Project Company related to any indebtedness of the Issuer or any

Project Company to such Project Company, and hereby assigns to the Collateral Agent, on behalf of the Secured Parties, all rights of such Guarantor thereunder. If any Project Company fails to file any such claim, the Collateral Agent, as attorney-in-fact for such Project Company, is hereby authorized to do so in the name of such Project Company or, in the Collateral Agent's discretion, to assign the claim to a nominee and to cause proofs of claim to be filed in the name of the Collateral Agent's nominee. The foregoing power of attorney is coupled with an interest and cannot be revoked. The Collateral Agent or its nominee shall have the sole right to accept or reject any plan proposed in any such proceeding and to take any other action which a party filing a claim is entitled to take. In all such cases, whether in administration, bankruptcy or otherwise, the person authorized to pay such a claim shall pay the same to the Collateral Agent to the extent of any Guaranteed Obligation which then remain unpaid, and, to the full extent necessary for that purpose, each Project Company hereby assigns to the Collateral Agent all of such Project Company's rights to all such payments or distributions to which such Project Company would otherwise be entitled; provided, however, that such Project Company's obligations hereunder shall not be satisfied except to the extent that the Collateral Agent receives cash by reason of any such payment or distribution. If the Collateral Agent receives anything hereunder other than cash, the same shall be held as collateral for amounts due under this Guaranty.

6.10 Interest; Collection Expenses. Any amount required to be paid by any Project Company pursuant to the terms of its Guaranty shall bear interest at the Late Payment Rate or the maximum rate permitted by Legal Requirements, whichever is less, from the date due until paid in full. If the Collateral Agent or any other Secured Party is required to pursue any remedy against any Project Company, such Project Company shall pay to the Collateral Agent or such Secured Party, as the case may be, upon demand, all reasonable attorneys' fees and expenses all other costs and expenses incurred by the Collateral Agent or such Secured Party in enforcing its Guaranty.

6.11 Reinstatement of Guaranty. Each Project Company's Guaranty and its obligations of the Guarantors shall automatically be reinstated if and to the extent that for any reason any payment made pursuant to its Guaranty is rescinded or otherwise restored to it, whether as a result of any proceedings in bankruptcy or reorganization or otherwise with respect to the Issuer or any other Person or as a result of any settlement or compromise with any Person (including any Project Company) in respect of such payment, and such Project Company shall pay the Collateral Agent on demand all of its reasonable costs and expenses (including reasonable fees of counsel) incurred by the Collateral Agent in connection with such rescission or restoration.

6.12 Termination of Guaranty. The Guaranty of a Project Company shall terminate in its entirety upon the occurrence of a Project Release Event with respect to such Project Company.

6.13 Survival. The provisions of this Article 6 shall survive satisfaction, discharge and/or termination of this Agreement and the other Financing Documents.

6.14 Contribution Obligations among Project Companies. In order to provide for just and equitable contribution among the Project Companies, each Project Company agrees that if any payment or distribution is made by a Project Company (a "Funding Project Company")

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under its Guaranty, such Funding Project Company shall be entitled to a contribution from the other Project Companies for all such payments or distributions, or damages and expenses incurred by such Funding Project Company in discharging any Guaranteed Obligations. Each Project Company which is not a Funding Project Company (a "Non-Funding Project Company") shall be liable to a Funding Project Company with respect to any such payments or distributions, or damages and expenses, in an aggregate amount equal to (a) the ratio of (i) the net worth of such Non-Funding Project Company, as determined in accordance with the most recent balance sheet of such Non-Funding Project Company at the time of such payment by a Funding Project Company, to (ii) the aggregate net worth of all Project Companies, similarly determined, multiplied by (b) the amount which the Funding Project Company paid on account of the Guaranteed Obligations. If at any time there exists more than one Funding Project Company, then payment from the other Non-Funding Project Companies pursuant to this Section 6.14 shall be in an aggregate amount equal in proportion to the total amount of money paid for or on account of the Guaranteed Obligations by the Funding Project Companies pursuant to their Guaranties. If the Funding Project Company is required to make any payment hereunder, such Funding Project Company shall also be entitled to a right of subrogation in respect of such payment from the other Project Companies. Notwithstanding anything in this Section 6.14 to the contrary, the agreements in this Section 6.14 are to establish the relative rights of contribution of the Project Companies and shall not modify the joint and several nature of the obligations of each Project Company owed to or for the benefit of the Secured Parties or impair the rights of the Collateral Agent for the benefit of the Secured Parties to hold any of the Project Companies liable for payment of the full amount of all Guaranteed Obligations.

ARTICLE 7 EVENTS OF DEFAULT; REMEDIES

7.1 Issuer Events of Default. The occurrence of any of the following events shall constitute an "Issuer Events of Default" hereunder:

(a) Failure to Make Payments. The Issuer shall fail to pay, in accordance with the terms of the Financing Documents, (i) any principal of any Bond Obligation on the date that such principal is due, (ii) any amount in respect of any Reimbursement Obligation on the date that such amount is due, (iii) any Swap Payment Amount in accordance with the Swap Agreement, (iv) any interest on any Bond Obligation, Reimbursement Obligation, Swap Payment Amount or any scheduled fee, cost, charge or sum due hereunder or under the other Financing Documents within 3 Business Days after the date that such sum is due, or (v) any other fee, cost, charge or other sum due hereunder or under the other Financing Documents within 10 Business Days after the date that such sum is due; provided that any such failure of the Issuer to pay the amounts described in this Section 7.1(a) shall not be an Issuer Event of Default if such amounts are paid (i) by one or more of the Project Companies pursuant to, and in accordance with, their respective Guaranties, (ii) by NRG Energy (or any other Equity Party) pursuant to, and in accordance with, the Contingent Guaranty Agreement

(or other Equity Document), or (iii) otherwise with Account Funds from the Debt Payment Account in accordance with the terms of the Depositary Agreement.

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(b) Judgments. One or more final judgments for the payment of money (if such payments are not fully covered by insurance) in excess of \$5,000,000 in the aggregate shall be rendered against the Issuer, and the Issuer shall not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, within 60 days after the date of entry thereof; provided, however, that any such judgment shall not be (and shall not constitute part of) an Issuer Event of Default under this Section 7.1(b) if and for so long as (i) the amount of such judgment is fully covered by a valid and binding policy of insurance between the defendant and the insurer covering payment thereof and (ii) such insurer has been notified of, and has not disputed the claim made for payment of, the amount of such judgment.

(c) Misstatements; Omissions. Any representation or warranty by the Issuer set forth in any Financing Document or in any document entered into in connection therewith in favor of or for the benefit of any Secured Party or in any certificate, financial statement or other document delivered in connection therewith for the benefit of any Secured Party shall prove to have been incorrect in any material respect when made (or deemed made) and the facts or events underlying such incorrect representation or warranty shall not be changed so as to correct such representation or warranty in all material respects for a period of 30 days (or so long as the facts or events underlying such incorrect representation or warranty are capable of being changed so as to correct such incorrect representation or warranty in all material respects and the Issuer is diligently proceeding to change such events or facts, such longer period but in no event for an aggregate period in excess of 90 days) after a Responsible Officer of the Issuer becomes aware thereof or the Issuer first received a notice from or on behalf of the Controlling Party (or XLCA if the proviso to this Section 7.1(c) applies) specifying such material inaccuracy and requiring that the facts or events underlying such incorrect representation or warranty be changed so as to correct such incorrect representation or warranty in all material respects; provided, however, that any Issuer Event of Default pursuant to this Section 7.1(c) arising solely from any representation or warranty made by the Issuer for the benefit of XLCA under the Insurance and Reimbursement Agreement shall be an Issuer Event of Default in respect of which no Person other than XLCA shall have the rights given to the parties to this Agreement in respect of Issuer Events of Default generally.

(d) Bankruptcy; Insolvency. The Issuer shall become subject to a Bankruptcy Event.

(e) Debt Cross Default. The Issuer shall default for a period beyond any applicable grace period (i) in the payment of any principal, interest or other amount due on any Debt for Borrowed Money of the Issuer (other than the Obligations) and such defaulted amount, together with any other principal, interest or other amount due and unpaid on any Debt for Borrowed Money of the Issuer (other than the Obligations) equals or exceeds \$5,000,000 in the aggregate, or (ii) in the payment of any amount then due or performance of any obligation then required under any agreement evidencing Debt of the Issuer (other than the Financing Documents) if, because of such default, the holder of such Debt accelerates the payment thereof and such accelerated amount, together with the amount of any other Debt of the Issuer then so accelerated (other than the Obligations), equals or exceeds \$5,000,000 in the aggregate.

(f) ERISA. With respect to any ERISA Plan which a member of the Controlled Group sponsors, maintains, administers, contributes to, participates in, or has any

obligation to contribute to or any liability under, an event has occurred or a condition exists which, together with all other such events or conditions, would reasonably be expected to have an Issuer Material Adverse Effect.

(g) Breach of Terms of Financing Documents.

(i) The Issuer shall fail to perform or observe any of the covenants or other agreements set forth in Sections 2.1 (Use of Proceeds and Revenues), 2.6(a)(i) and (c) (Existence, Conduct of Business, etc.), or Article 4 (other than Section 4.6 (Investments), 4.8 (ERISA), 4.10 (Accounts) and 4.11 (Name and Location; Fiscal Year)).

(ii) The Issuer shall fail to perform or observe any of the covenants or other agreements set forth in the Financing Documents which are not otherwise specifically provided for in Section 7.1(g)(i) or elsewhere in this Section 7.1 and such failure shall continue unremedied for a period of 30 days after the Issuer becomes aware thereof or receives written notice thereof from the Controlling Party; provided, however, if (A) such failure does not consist of a failure to pay money and cannot be cured within such 30 day period, (B) such failure is susceptible of cure within 90 days, (C) the Issuer is proceeding with diligence and in good faith to cure such failure, (D) the existence of such failure has not had and, after considering the nature of the cure, could not reasonably be expected to have an Issuer Material Adverse Effect, and (E) the Controlling Party and the Collateral Agent shall have received an officer's certificate signed by a Responsible Officer of the Issuer to the effect of clauses (A), (B), (C) and (D) above and stating what action the Issuer is taking to cure such failure, then such 30 day cure period shall be extended to such date, not to exceed a total of 90 days, as shall be necessary for the Issuer diligently to cure such failure.

(h) Loss of Exemption. The Issuer shall become subject to, or not exempt from, regulation under the FPA or PUHCA, other than Section 9(a)(2) of PUHCA, and such regulation, or loss of exemption from regulation, shall have an Issuer Material Adverse Effect; provided that the Issuer shall have 60 days after a Responsible Officer of the Issuer obtains knowledge of such event to cure such event before it becomes an Issuer Event of Default so long as the extension of time to cure such event could not reasonably be expected to have an Issuer Material Adverse Effect.

(i) Issuer Collateral. (i) The grant of the Lien of any of the Issuer Collateral Documents shall fail in any material respect to provide a perfected Lien in favor of the Collateral Agent for the benefit of the Secured Parties on any of the Issuer Collateral with the priority purported to be created thereby, and the Issuer shall fail to cure any such failure within 15 days after the Issuer becomes aware thereof or receives written notice thereof from the Collateral Agent, or (ii) the Collateral Agent shall receive a Secretary of State report indicating that the Collateral Agent's security interest in any of the Issuer Collateral is not prior to all other security interests or other interests reflected in such report, other than Issuer Permitted Liens, and the Issuer shall fail to cure such condition within 15 days after the Issuer becomes aware thereof or receives written notice thereof from the Collateral Agent.

(j) Loss of Control. (a) All or substantially all of the assets of a Project Company shall be sold, leased, licensed, assigned, pledged, transferred or otherwise disposed of by such Project Company other than pursuant to a Permitted Peaker Buyout, or (b) NRG Energy shall fail to directly or

indirectly own 100% of the membership interests in the Issuer or any Project Company and control the fundamental management decisions of the Issuer or any Project Company other than in connection with (i) a Permitted Peaker Buyout or (ii) a Permitted Change of Control.

(k) Project Events of Default.

(i) A Fundamental Project Event of Default shall have occurred and be continuing.

(ii) Any Project Event of Default shall have occurred and be continuing and (A) has resulted in an Issuer Material Adverse Effect, or (B) could reasonably be expected to result in an Issuer Material Adverse Effect, provided that there shall be no Issuer Event of Default under this Section 7.1(k)(ii) if the Issuer consummates a Permitted Peaker Buyout (Peaker Sale/Project Event of Default) or Peaker Collateralization in respect of the applicable Project Company and/or its Project.

(l) Unenforceability of Financing Documents. At any time after the execution and delivery thereof, any material provision of any Financing Document shall cease to be in full force and effect (other than by reason of a release of Collateral thereunder in accordance with the terms hereof or thereof, the satisfaction in full of the Obligations or any other termination of a Financing Document in accordance with the terms hereof and thereof) or any Financing Document shall be declared null and void by a Governmental Authority of competent jurisdiction.

(m) Equity Documents and Equity Parties.

(i) Any Equity Document shall fail to be in full force and effect (other than due to a termination thereof in accordance with the terms hereof and thereof) or any Equity Party shall repudiate in writing any of its obligations thereunder.

(ii) Any Equity Party shall fail to make any payment as and when due under any Equity Document to which it is a party.

(iii) There shall have occurred and be continuing an NRG Event of Default (other than pursuant to the matters referred to in Section 7.1 (m) (i) or Section 7.1(m)(ii)), provided that there shall be no Issuer Event of Default pursuant to this Section 7.1(m)(iii) if the Equity Party shall have deposited, or caused the deposit of, cash in the Cash Collateral Accounts in accordance with Section 2.2(c) or Section 2.3(b) of the Contingent Guaranty Agreement, in each case as applicable.

(n) Completion. Either one or both of the Bayou Cove Project or the Rockford II Project shall have failed to reach Completion on or prior to June 30, 2003; provided, however, that:

(i) a failure of the Bayou Cove Project to reach Completion on or prior to June 30, 2003 shall not be an Issuer Event of Default if, on or prior to such date, the Issuer consummates a Permitted Peaker Buyout (Completion / Loss Event) or Peaker Collateralization in respect of the Bayou Cove Project and the Bayou Cove Project Company; and

(ii) a failure of the Rockford II Project to reach Completion on or prior to June 30, 2003 shall not be an Issuer Event of Default if, on or prior to such date, the Issuer consummates a Permitted Peaker Buyout (Completion / Loss Event) or Peaker Collateralization in respect

of the Rockford II Project and the Rockford II Project Company.

(o) Significant Casualty Event or Significant Condemnation Event.

(i) There shall have occurred a Significant Casualty Event in respect of a Project or the Issuer shall not have delivered to the Collateral Agent the Responsible Officer's certificate required in respect of such Project under Section 4.7.2(a)(ii) of the Depositary Agreement or XLCA (or the Independent Engineer) shall not have consented to, or confirmed the statements set forth in, as the case may be, such certificate as required by Section 4.7.2(a)(ii) of the Depositary Agreement, provided that there shall be no Issuer Event of Default under this Section 7.1(o)(i) if the Issuer consummates a Permitted Peaker Buyout (Completion / Loss Event) or Peaker Collateralization in respect of such Project.

(ii) There shall have occurred a Significant Condemnation Event in respect of a Project or the Issuer shall not have delivered to the Collateral Agent the Responsible Officer's certificate required in respect of such Project under Section 4.7.2(b)(ii) of the Depositary Agreement or XLCA (or the Independent Engineer) shall not have consented to, or confirmed the statements set forth in, as the case may be, such certificate as required by Section 4.7.2(b)(ii) of the Depositary Agreement, provided that there shall be no Issuer Event of Default under this Section 7.1(o)(ii) if the Issuer consummates a Permitted Peaker Buyout (Completion / Loss Event) or Peaker Collateralization in respect of such Project.

7.2 Project Events of Default. The occurrence of any of the following events in respect of a Project Company shall constitute a "Project Event of Default" with respect to such Project Company hereunder:

(a) Failure to Make Payments. Such Project Company shall fail to pay, in accordance with the terms of its Guaranty, any amount due thereunder on the date that such amount is due.

(b) Judgments. One or more final judgments for the payment of money (if such payments are not fully covered by insurance) in excess of \$5,000,000 in the aggregate shall be rendered against such Project Company, and such Project Company shall not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, within 60 days after the day of entry thereof; provided, however, that any such judgment

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shall not be (and shall not constitute part of) a Project Event of Default under this Section 7.2(b) if and for so long as (i) the amount of such judgment is fully covered by a valid and binding policy of insurance between the defendant and the insurer covering payment thereof and (i) such insurer has been notified of, and has not disputed the claim made for payment of, the amount of such judgment.

(c) Misstatements; Omissions. Any representation or warranty by such Project Company set forth in any Financing Document or in any document entered into in connection therewith in favor of or for the benefit of any Secured Party or in any certificate, financial statement or other document delivered in connection therewith for the benefit of any Secured Party shall prove to have been incorrect in any material respect when made (or deemed made) and the facts or events underlying such incorrect representation or warranty shall not be changed so as to correct such representation or warranty in all material respects for a period of 30 days (or so long as the facts or events underlying such incorrect representation or warranty are capable of being

changed so as to correct such incorrect representation or warranty in all material respects and such Project Company is diligently proceeding to change such events or facts, such longer period but in no event for an aggregate period in excess of 90 days) after a Responsible Officer of such Project Company becomes aware thereof or receives written notice thereof from or on behalf of the Controlling Party (or XLCA if the proviso to this Section 7.2(c) applies) specifying such material inaccuracy and requiring that the facts or events underlying such incorrect representation or warranty be changed so as to correct such incorrect representation or warranty in all material respects; provided, however, that any Project Event of Default pursuant to this Section 7.2(c) arising solely from any representation or warranty made by a Project Company for the benefit of XLCA under the Insurance and Reimbursement Agreement shall be an Issuer Event of Default in respect of which no Person other than XLCA shall have the rights given to parties to this Agreement in respect of Issuer Events of Default generally.

(d) Bankruptcy.

(i) Such Project Company shall become subject to a Bankruptcy Event.

(ii) Any Major Project Participant (other than such Project Company) in such Project Company's Project (so long as such Major Project Participant has any remaining obligations (other than indemnification obligations) under the Major Project Documents related to such Project to which it is a party) shall become subject to a Bankruptcy Event; provided that no Project Event of Default shall occur as a result of such Bankruptcy Event if: (A) with respect to any such Major Project Participant that is the only Person able to provide the services that are being provided under the Major Project Document to which it is a party on a commercially reasonable basis, (x) such Major Project Participant is continuing to perform all of its obligations under such Major Project Document in accordance with the terms thereof and (y) the Controlling Party does not, within 60 days after the occurrence of such Bankruptcy Event, declare a Project Event of Default with respect thereto; and (B) with respect to any Major Project Participant in such Project Company's Project, (t) within 30 days after the occurrence of such Bankruptcy Event, such Project Company notifies the Controlling Party and the Collateral Agent in writing that it intends to replace the affected Person in accordance with this clause (B), (u) within 135 days after the occurrence of such Bankruptcy Event, such Project Company replaces

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the affected Person with a Person that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or whose replacement of the affected Person could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party) pursuant to documentation that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or that could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party), and (v) such Bankruptcy Event does not have a Project Material Adverse Effect.

(e) Debt Cross Default. Such Project Company shall default for a period beyond any applicable grace period (i) in the payment of any principal, interest or other amount due on any Debt for Borrowed Money of such Project Company (other than the Obligations) and such defaulted amount, together with any other principal, interest or other amount due and unpaid on any Debt for Borrowed Money of such Project Company (other than the Obligations) equals or exceeds \$5,000,000 in the aggregate, or (ii) in the payment of any amount then due or performance of any obligation then required under any agreement evidencing Debt of such Project Company (other than the Financing Documents) if,

because of such default, the holder of such Debt accelerates the payment thereof and such accelerated amount, together with the amount of any other Debt of such Project Company then so accelerated (other than the Obligations), equals or exceeds \$5,000,000 in the aggregate.

(f) Breach of Terms of Financing Documents.

(i) Such Project Company shall fail to perform or observe any of the covenants set forth in Section 3.1 (Use of Proceeds and Revenues), 3.6(a) (Maintenance of Existence and Business), 3.10 (Insurance) or Article 5 (other than Section 5.6(b) (Investments), 5.9 (ERISA), 5.12 (Accounts), 5.13 (Name Change, etc.) or 5.18 (Hazardous Substances)); provided that in the case where such Project Company's failure to perform or observe the covenants set forth in Section 3.1 is not an intentional failure, such failure shall not become a Project Event of Default unless such Project Company does not cure such failure within three Business Days after the occurrence of such failure.

(ii) Such Project Company shall fail to perform or observe any of the covenants or other agreements set forth hereunder or in any other Financing Document which are not otherwise specifically provided for in Section 7.2(f)(i) or elsewhere in this Section 7.2 and such failure shall not be susceptible of cure or, if susceptible of cure, shall continue unremedied for a period of 30 days after such Project Company becomes aware thereof or receives written notice thereof from, or on behalf of, the Controlling Party; provided, however, if (A) such failure does not consist of a failure to pay money and cannot be cured within such 30-day period, (B) such failure is susceptible of cure within 90 days, (C) such Project Company is proceeding with diligence and in good faith to cure such failure, (D) the existence of such failure has not had and, after considering the nature of the cure, could not be reasonably expected to have, a Project Material Adverse Effect, and (E) the Controlling Party and the Collateral Agent shall have received an officer's certificate signed by a Responsible Officer of such Project Company to the effect of clauses (A), (B), (C) and (D) above and stating what action such Project Company is taking to cure such failure, then such 30-day cure period shall be extended to

such date, not to exceed a total of 90 days, as shall be necessary for such Project Company diligently to cure such failure.

(g) Major Project Documents.

(i) Any Person (other than a Secured Party) shall be in breach of, or in default under, (A) a Major Project Document relating to such Project Company's Project (after giving effect to any applicable grace period set forth in such Major Project Document), or (B) any Consent related to such Major Project Document, and in each case such breach or default could reasonably be expected to have a Project Material Adverse Effect, and such breach or default shall not be susceptible of cure or, if susceptible of cure, shall continue unremedied for a period of 45 days; provided that if (A) such breach or default does not consist of a failure to pay money and cannot be cured within such 45-day period, (B) such breach or default is susceptible of cure within 90 days, (C) the breaching party is proceeding with diligence and in good faith to cure such breach, and (D) the existence of such breach or default does not have a Project Material Adverse Effect and the extension of time to cure such breach or default could not, after considering the nature of the cure, be reasonably expected to have a Project Material Adverse Effect, then such 45-day cure period shall be extended to such date, not to exceed a total of 90 days, as shall be necessary for the

breaching party diligently to cure such breach or default; provided, further, that no Project Event of Default shall be declared or deemed to exist as a result of any such breach or default if: (y) within the 90-day cure period referred to in this Section 7.2(g)(i) (or within the 45-day cure period, if no extension is given), such Project Company replaces the affected Person (other than such Project Company) with a Person that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or whose replacement of the affected Person could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party) pursuant to documentation that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or that could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party), and (z) the existence of such breach or default does not have a Project Material Adverse Effect and the extension of time (if any) to obtain a replacement Person could not reasonably be expected to have a Project Material Adverse Effect.

(ii) Any Major Project Document relating to such Project Company's Project shall terminate, any material provision in any such Major Project Document shall for any reason cease to be valid and binding on any Person party thereto except upon fulfillment of such Person's obligations thereunder (or any such Person shall so state in writing), or shall be declared null and void, or the validity or enforceability thereof shall be contested by any party thereto or any Governmental Authority, or any such Person shall deny in writing that it has any liability or obligation thereunder, except upon fulfillment of its obligations thereunder, and in each case such occurrence could reasonably be expected to have a Project Material Adverse Effect; provided that no Project Event of Default shall be declared or deemed to exist as a result of the occurrence of such event if: (A) within 30 days after the occurrence of such event, such Project Company notifies the Controlling Party and the Collateral Agent in writing that it intends to cure such event, (B) within 135 days after the occurrence of such event, such Project Company (x) replaces the affected

Person (other than Project Company) with a Person that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or whose replacement of the affected Person could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party) pursuant to documentation that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or that could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party) or (y) replaces the affected Major Project Document with a Project Document that is reasonably satisfactory to XLCA (if XLCA is then the Controlling Party) or that could not reasonably be expected to have a Project Material Adverse Effect (if XLCA is not then the Controlling Party); and (C) the occurrence of such event does not have a Project Material Adverse Effect and the extension of time to cure such event could not reasonably be expected to have a Project Material Adverse Effect.

(h) Loss of EWG Status. Such Project Company shall cease to be an Exempt Wholesale Generator or its Project shall cease to be an Eligible Facility, or such Project Company shall fail to take all actions required to maintain such status (except if such Project Company or such Project, as the case may be, is no longer required to hold such status in order to be exempt from PUHCA), and such cessation or failure shall have a Project Material Adverse Effect; provided that such Project Company shall have 60 days after a Responsible Officer of such Project Company obtains knowledge of such cessation or failure to cure such cessation or failure before it becomes a Project Event of Default so long as the extension of time to cure such cessation or failure could not reasonably be expected to have a Project Material Adverse Effect.

(i) Abandonment. At any time following the Completion Date for its Project, such Project Company shall announce that it is abandoning such Project or such Project shall be abandoned or operation thereof shall substantially cease for a continuous period of more than 2 years for any reason.

(j) Permits. Any Permit shall be revoked, canceled, not renewed or materially modified by the issuing agency or other Governmental Authority having jurisdiction (excluding any revocation, cancellation, non-renewal, or material modification at the request of the relevant Project Company and with the prior written consent of the Controlling Party and the Collateral Agent) and within 90 days thereafter the relevant Project Company is not able to demonstrate to the reasonable satisfaction of XLCA (if XLCA is then the Controlling Party) acting in consultation with the Independent Engineer (or a Responsible Officer of such Project Company is not able to certify to the Trustee (if XLCA is not then the Controlling Party) that such revocation, cancellation or material modification of, or failure to renew, such Permit could not reasonably be expected to have a Project Material Adverse Effect.

(k) ERISA. With respect to any ERISA Plan which a member of the Controlled Group sponsors, maintains, administers, contributes to, participates in, or has any obligation to contribute to or any liability under, an event has occurred or a condition exists which, together with all other such events or conditions, could reasonably be expected to have a Project Material Adverse Effect.

(l) Project Company Collateral. (i) The grant of the Lien of such Project Company's Project Company Collateral Documents shall fail in any material respect to provide a

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perfected Lien in favor of the Collateral Agent for the benefit of the Secured Parties on any of such Project Company's Project Company Collateral with the priority purported to be created thereby, and such Project Company shall fail to cure any such failure within 15 days after it becomes aware thereof or receives written notice thereof from the Collateral Agent, or (ii) Collateral Agent shall receive a Secretary of State report indicating that the Collateral Agent's security interest in any of such Project Company Collateral is not prior to all other security interests or other interests reflected in such report, other than Project Company Permitted Liens, and such Project Company shall fail to cure such condition within 15 days after it becomes aware thereof or receives written notice thereof from the Collateral Agent.

(m) Liens of Certain Equity Interests. The membership interests in the Big Cajun Project Company or the Sterlington Project Company shall be, or shall become, subject to any Lien (whether or not existing before or after the Closing Date but other than (i) a Lien in favor of the Secured Parties pursuant to which any such membership interests become part of the Collateral, or (ii) Project Company Permitted Liens as described in paragraphs (b) and (d) of the definition of Project Company Permitted Liens) and such Lien shall not be discharged within 15 days after such Project Company becomes aware thereof or receives written notice thereof from the Collateral Agent.

(n) Interconnection Solution. The Interconnection Solution shall fail to be in full force and effect within nine months after the Closing Date; provided, however, that if the Big Cajun Project Company is proceeding with diligence and in good faith to cure such failure, such failure shall not be considered a Project Event of Default unless it continues unremedied for an additional 90 days following the end of such nine month period.

7.3 Fundamental Project Event of Default. The occurrence of any of the following Project Events of Default with respect to a Project Company shall constitute a "Fundamental Project Event of Default" with respect to such Project

Company (provided that any such Project Event of Default shall not be a Fundamental Project Event of Default with respect to a Project Company if the Issuer consummates a Permitted Peaker Buyout (Peaker Sale / Project Event of Default) or a Peaker Collateralization in respect of such Project Company and/or its Project):

(a) The occurrence of a Project Event of Default under Section 7.2(d) (i) (Bankruptcy of Project Company) with respect to such Project Company;

(b) The occurrence of a Project Event of Default under Section 7.2(f) (i) (Breach of Terms of Financing Documents) with respect to such Project Company's failure to perform or observe the covenants set forth in:

(i) Section 3.1 (Use of Proceeds and Revenues), if such failure shall continue unremedied for a period of 30 days;

(ii) Section 3.6(a) (Maintenance of Existence);

(iii) Section 3.10 (Insurance), if such failure shall continue unremedied for a period of 30 days;

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(iv) Section 3.12(a) (Title), if such failure is in respect of all or substantially all of such Project Company's assets;

(v) Section 5.2 (Liens), in respect of Liens in excess of \$5,000,000, if such failure shall continue unremedied for a period of 30 days;

(vi) Section 5.3 (Indebtedness);

(vii) Sections 5.4(a), (b), (c) or (d) (Asset Dispositions), in respect of any asset that is material to the ownership, leasing, operation, maintenance or use of such Project Company's Project;

(viii) Section 5.10 (Merger or Consolidation; Liquidation) in respect of a merger, consolidation, liquidation or dissolution; and

(ix) Section 5.14 (Assignment).

(c) The occurrence of a Project Event of Default under Section 7.2(i) (Abandonment) with respect to such Project Company's Project;

(d) The occurrence of a Project Event of Default under Section 7.2(h) (Loss of Exemption) with respect to such Project Company or its Project;

(e) The occurrence of a Project Event of Default under Section 7.2(j) (Permits) with respect to a Permit that is necessary to operate such Project Company's Project on a commercially feasible basis, if such Project Event of Default continues unremedied for a period of 90 days; and

(f) The occurrence of a Project Event of Default under Section 7.2(l) (Project Company Collateral) with respect to all or substantially all of the Project Company Collateral of such Project Company

(g) The occurrence or continuation of a Project Event of Default under Section 7.2(n) (Interconnection Solution) at any time that the Big Cajun PPA or an Alternate Big Cajun PPA is not in full force and effect.

7.4 Controlling Party Agreement.

(a) Each party to this Agreement agrees that the Controlling Party shall, subject to Section 9.2 (b) as to matters referred to in

the proviso to Section 9.2(b), have the exclusive power to determine, control and direct any request, demand, authorization, direction, notice, consent, waiver or other action to be given, made or taken by any party to any Financing Document. Notwithstanding anything to the contrary in any Financing Document, each of the Swap Counterparty, the Collateral Agent and the Trustee (on behalf of itself and the Bondholders) agrees not to give, make or take any such request, demand, authorization, direction, notice, consent, waiver or other action for so long as XLCA is the Controlling Party (unless, in each such case, it is directed to do so by XLCA). Without prejudice to Section 2.11 of this Agreement, this Section 7.4(a) shall not prohibit (a) notices by the Issuer to the Swap

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Counterparty under the Swap Agreement from becoming effective if, pursuant to the express terms of the Swap Agreement, such notices are to be effective without XLCA's consent upon being given to XLCA, or (b) the Swap Counterparty from designating an early termination of the Swap Agreement (as expressly permitted by its terms) without XLCA's consent.

(b) Each party to this Agreement agrees that the Controlling Party shall have the exclusive power to determine the exercise of all rights and remedies in respect of any Issuer Event of Default or any other default or event of default under any Financing Document howsoever arising. Notwithstanding anything to the contrary in any Financing Document, each of the Swap Counterparty, the Collateral Agent and the Trustee (on behalf itself and the Bondholders) agrees not to exercise any rights or remedies granted in, or pursuant to or in respect of any, Financing Document or available to it at law or in equity in respect of any default or event of default under any Financing Document for so long as XLCA is the Controlling Party (unless, in each such case, it is directed to exercise such rights and remedies by XLCA). Without prejudice to Section 2.11 of this Agreement, this Section 7.4(b) shall not prohibit the Swap Counterparty from designating an early termination of the Swap Agreement (as expressly permitted by its terms) without XLCA's consent.

(c) Without prejudice to the generality of Section 7.4(a) or 7.4(b) of this Agreement, each of the Trustee, on behalf of itself and the Bondholders, and the Swap Counterparty, hereby assigns to XLCA the respective rights of the Trustee, the Bondholders and the Swap Counterparty with respect to the Obligations to the extent of any payments under the Policy or the Swap Policy. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to XLCA in respect of the Policies (including pursuant to Section 4.2 of the Insurance and Reimbursement Agreement), which subrogation rights are acknowledged, and agreed to, by the other Secured Parties. Payments to XLCA in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Bondholders to receive all scheduled payments of interest and principal under the Bond Obligations. The Controlling Party is hereby appointed agent and attorney-in-fact for each other Secured Party in any legal proceeding in respect of the Obligations. Each Secured Party agrees that the Controlling Party may at any time during the continuation of any proceeding by or against any debtor with respect to which a claim seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a "Preference Claim"), or other claim with respect to the Obligations is asserted under any proceeding in connection with a Bankruptcy Event, direct all matters relating to such proceeding, including, without limitation, (i) all matters relating to any Preference Claim, (ii) the direction of any appeal of any order relating to any Preference Claim and (iii) the posting of any surety or performance bond pending any such appeal. The Trustee, on behalf of itself and the Bondholders, and the Swap Counterparty each hereby agrees that XLCA shall be subrogated to, and the Trustee, on behalf of itself and the Bondholders, and the Swap Counterparty each hereby delegates and assigns, to the fullest extent permitted by law, the respective rights of the Trustee, the Bondholders and the Swap Counterparty in the conduct of any proceeding in connection with a Bankruptcy Event, including, without limitation, all rights of any party to an adversary proceeding or action

with respect to any court order issued in connection with any such proceeding.

(d) Each party to this Agreement agrees that in respect of the matters set forth or contemplated in Sections 7.4, 7.5, 7.6 and 7.7 and in respect of related matters set forth or

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contemplated in the Financing Documents, the Swap Counterparty shall abide by the decisions, and follow and comply with the requests, of the Controlling Party and shall have no voting or other related rights in respect of any such matters.

7.5 Remedies. Upon the occurrence and during the continuation of an Issuer Event of Default, the Controlling Party may, without any obligation to do so and without further notice of default, presentment or demand for payment, protest or notice of non-payment or dishonor, or other notices or demands of any kind (all such notices and demands being waived), exercise any or all of the following rights and remedies, in any combination or order, in addition (but without prejudice to its rights as Controlling Party pursuant to Section 7.4) to such other rights or remedies as the Secured Parties may have hereunder or under the Collateral Documents or at law or in equity:

(a) Cure. Make disbursements to or on behalf of the Issuer to cure any Issuer Event of Default hereunder and to cure any default or render any performance under any Project Document as XLCA in its absolute discretion may consider necessary or appropriate, whether to preserve and protect the Collateral or the Secured Parties' interests therein or for any other reason, and all sums so expended, together with interest on such total amount at the Late Payment Rate (but in no event shall the rate exceed the maximum lawful rate), shall be repaid by the Issuer to Collateral Agent promptly upon demand therefor and shall be secured by the Financing Documents.

(b) Acceleration. Declare and make all sums of accrued and outstanding principal, accrued but unpaid interest and accrued but unpaid premium remaining under the Financing Documents, together with all unpaid amounts, fees, costs and charges due hereunder or under any other Financing Document (including in respect of any Reimbursement Obligation, Depositary Obligation or Bond Obligation) immediately due and payable, and require the Issuer immediately, without presentment, demand, protest or other notice of any kind, all of which the Issuer hereby expressly waives, to pay to the Collateral Agent an amount in immediately available funds equal to the aggregate amount of any such outstanding accelerated obligations; provided that XLCA, so long as it shall be the Controlling Party, shall not cause such an acceleration upon the occurrence and during the continuation of an Issuer Event of Default pursuant to Section 7.1(a) (Failure to Make Payments) if at such time (i) the discounted present value of the aggregate amount of all payments made under the Policies for which XLCA has not been reimbursed under the Insurance and Reimbursement Agreement (or otherwise) is less than \$25,000,000 (such discounted present value being calculated by discounting the value of such aggregate amount back to the Closing Date at a discount rate of 6.672826%), and (ii) no Issuer Event of Default or Issuer Inchoate Default shall have occurred or be continuing (other than pursuant to or in respect of Section 7.1(a) of this Agreement); and provided, further, that in the event of an Issuer Event of Default occurring under Section 7.1(d) (Bankruptcy), all such amounts, notwithstanding anything to the contrary in this Agreement, shall become immediately due and payable without further act of any Secured Party.

(c) Cash Collateral. Apply to any Obligation then due any amounts on deposit in any Account, any funds on deposit in any Cash Collateral Account, any drawings made under any Acceptable Letter of Credit or any proceeds or any other monies of the Issuer on deposit with Depositary Agent or any Secured Party in the manner provided in this Agreement or

in the Uniform Commercial Code and other relevant statutes and decisions and interpretations thereunder with respect to cash collateral.

(d) Possession of Projects. Enter into possession of any Project and perform any and all work and labor necessary to complete such Project or to operate and maintain such Project, and all sums expended in so doing, together with interest on such total amount at the Late Payment Rate, shall be repaid by the Issuer to the Secured Party or Parties expending such sums promptly upon demand and shall be secured by the Financing Documents to the extent provided herein.

(e) Remedies Under Collateral Documents. Exercise any and all rights and remedies available to the Secured Parties under any of the Collateral Documents, including judicial or non-judicial foreclosure or public or private sale of any of the Collateral pursuant to the Collateral Documents.

7.6 Notice to Trustee and Project Events of Default. In exercising its rights as Controlling Party in respect of remedies under Section 7.5 under this Agreement, XLCA shall give the Trustee notice of XLCA's exercise of such remedies (provided that failure by XLCA to give such notice shall in no way limit, prejudice or affect XLCA's ability to exercise any remedies and XLCA shall have no liability of any kind to any Person for failure to give such notice). Without limiting anything set forth in this Article 7, upon the occurrence of a Project Event of Default hereunder, the remedies available to the Controlling Party and the other Secured Parties shall not include the remedies set forth in Section 7.5 unless an Issuer Event of Default has also occurred and is continuing.

7.7 Application of Proceeds. If there shall have occurred an Issuer Event of Default, all money, proceeds and other property received or held by the Collateral Agent comprising Collateral or pursuant to the exercise by the Collateral Agent of rights and remedies of the Secured Parties under any Financing Document in respect of the Collateral shall be applied by the Collateral Agent as follows (and if any Secured Party receives any such money, proceeds or property other than as distributed by the Collateral Agent pursuant to this Section 7.7, such Secured Party shall promptly pay or transfer the same to the Collateral Agent for distribution in accordance with this Section 7.7):

first: to the payment of all and any fees, costs and expenses owed to the Collateral Agent and the Trustee in their respective trust capacities pursuant to any Financing Document;

second: to the payment of the whole amount then outstanding (including accrued interest, principal and premium (if any)) of the Obligations (or if the Obligations shall only have been accelerated in part, the whole amount then outstanding of such part) and in case such proceeds are not sufficient to pay in full the whole amount so outstanding, then to make pro-rata payments without any preference or priority, to each Secured Party (other than the Collateral Agent or the Trustee) in respect of the Obligations; and

third: after the payment in full of the Obligations, to the payment of the remainder, if any, to the Issuer or as a court of competent jurisdiction may direct.

"364 Day Revolver" means that certain 364-Day Revolving Credit Agreement, dated as of March 8, 2002 and amended as of April 8, 2002 and May 14, 2002, among NRG Energy, the financial institutions party thereto, ABN AMRO Bank, N.V., as Administrative Agent, Salomon Smith Barney, Inc., as Syndication Agent, Barclays Bank plc, as Co-Syndication Agent, and The Royal Bank of Scotland plc and Bayerische Hypo-und Vereinsbank AG, New York Branch, as Co-Documentation Agents.

"Acceptable Assignee" has the meaning given in Section 11 of the Contingent Guaranty Agreement.

"Acceptable Letter of Credit" means a letter of credit that (a) is issued by a bank or other financial institution rated at least A2 by Moody's and at least A by S&P, (b) has no account party that is a Financing Party or any Affiliate of any Financing Party, and (c) is in the form attached as Exhibit B to the Depositary Agreement.

"Acceptable PPA" means, with respect to a Project, an agreement for the sale of Power generated by such Project that (a) does not require the applicable Project Company to accept fuel price market risk (e.g., a tolling agreement, fuel pass-through, energy prices indexed to fuel prices, prices otherwise structured to limit negative spark spread risk), (b) has an initial term of at least one year, (c) provides for annual revenues that equal or exceed such Project Company's Allocation Percentage multiplied by the aggregate amount of Scheduled Debt Service payments on the Series A Bonds Outstanding (as such term is defined in the Indenture) for each year during the term of such agreement for the sale of Power, and (d) provides for the counterparty credit support that complies with the credit support criteria contained in the NRG Credit Risk Policy; provided that with respect to any such agreement entered into by NRG Power Marketing as principal under the Power Sales and Agency Agreement to which such Project Company is a party, such agreement will be an Acceptable PPA with respect to such Project Company only if such Project Company and NRG Power Marketing have entered into a written agreement evidencing and/or attaching the terms and conditions of the agreement that is being passed through to such Project Company as contemplated by Section 2.9 of such Power Sales and Agency Agreement.

"Account Funds" means all cash, cash equivalents, financial assets, instruments, investments, investment property, securities and other property, including Permitted Investments, on deposit in or credited to an Account in accordance with the Depositary Agreement.

"Accounts" has the meaning given in Section 2.1 of the Depositary Agreement.

"Accrued Insurer Loss Amount (Bond)" means, as of any Annual Scheduled Payment Date, the aggregate amount then due and owing to XLCA by the Issuer under the Insurance and Reimbursement Agreement in respect of the Reimbursement Obligations relating to the Policy.

"Accrued Insurer Loss Amount (Swap)" means, as of any Annual Scheduled Payment Date, the aggregate amount then due and owing to XLCA by the Issuer under the Insurance and Reimbursement Agreement in respect of the Reimbursement Obligations relating to the Swap Policy.

"Acquisition Agreements" means the Bayou Cove Membership Interest Purchase Agreement, the Bayou Cove Assignment and Assumption Agreement, the Rockford Acquisition Agreement, the Rockford Assignment and Assumption Agreement, the Sterlington Project Development Agreement, the Sterlington Supplement and Modification to Project Development Agreement, and the Sterlington and NRG South Central Assignment and Assumption Agreement.

"Acquisition Indemnity Payment" means, for any Project, any and all amounts paid as indemnification payments to an Affiliate of the Project Company owning such Project pursuant to an Acquisition Agreement relating to such Project in order to compensate the relevant acquirer of such Project (or

Affiliate of such acquirer) for any devaluation of such Project due to a breach of any representation, warranty or covenant contained in such Acquisition Agreement.

"Acquisition Indemnity/Performance LD Reserve Account" has the meaning given in Section 2.1 of the Depository Agreement.

"Actual Net Revenue" (a) in connection with the calculation of a Performance Shortfall has the meaning given in Appendix I to the Contingent Guaranty Agreement and (b) in connection with the calculation of an Experience Accrual Amount or Experience Reduction Amount has the meaning given in Appendix II to the Contingent Guaranty Agreement.

"Additional Bonds" has the meaning given in the Indenture.

"Additional Contingent Guaranty Agreement" means any contingent guaranty agreement, substantially in the form of the Contingent Guaranty Agreement or as otherwise in form and substance satisfactory to the Controlling Party, provided by an Acceptable Assignee in connection with a Permitted Change of Control pursuant to Section 10 of the Contingent Guaranty Agreement.

"Additional Project Document" means, with respect to any Project, any Project Document entered into with respect to such Project after the Closing Date.

"Affiliate" means, with respect to a specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Person specified, or who holds or beneficially owns 10% or more of the equity interest in the Person specified or 10% or more of any class of voting securities of the Person specified. For the purposes of this definition "control" (including with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or to cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. When used with respect to the Issuer, "Affiliate" shall include NRG Energy and each Project Company.

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"Affiliated Major Project Participant" means any Major Project Participant that is an Affiliate of the applicable Project Company (in each case to the extent such Person has remaining obligations under the Major Project Documents).

"Allocation Percentage" means (a) in respect of the Bayou Cove Project Company, 20%, (b) in respect of the Big Cajun Project Company, 28%, (c) in respect of the Rockford I Project Company, 31%, (d) in respect of the Rockford II Project Company, 10%, and (e) in respect of the Sterlington Project Company, 11%; provided that upon a Permitted Peaker Buyout, the Allocation Percentage for the Project Company subject to such Permitted Peaker Buyout shall be reduced to 0% and the Allocation Percentage for each other Project Company not subject to such Permitted Peaker Buyout shall be increased to its Allocation Increased Percentage.

"Allocation Increased Percentage" means, in connection with a Permitted Peaker Buyout and with respect to a Project Company that is not subject to such Permitted Peaker Buyout, a percentage amount that is equal to 100% multiplied by (a) the product in Dollars of (x) such Project Company's Allocation Percentage immediately prior to the consummation of such Permitted Peaker Buyout multiplied by (y) the aggregate principal amount of all Series A Bonds Outstanding (as such term is defined in the Indenture) immediately prior to such consummation, divided by, (b) the aggregate principal amount of all Series A Bonds Outstanding (as such term is defined in the Indenture)

immediately after such consummation.

"Allocation Percentage Buyout Amount" means, in respect of a Project Company, an amount equal to the Allocation Percentage for such Project Company multiplied by the aggregate principal amount of Series A Bonds then Outstanding (as such term is defined in the Indenture).

"Alternate Big Cajun PPA" means, with respect to the Big Cajun Project, any Acceptable PPA which has been entered into by the Big Cajun Project Company as a replacement for the Big Cajun PPA; provided that (i) such Acceptable PPA specifies the same delivery point for electricity as the Big Cajun PPA and (ii) the counterparty to such Acceptable PPA has entered into a Consent on terms and conditions similar to those contained in the Consent relating to the Big Cajun PPA delivered on the Closing Date.

"Ancillary Services" means, in respect of a Project Company, the ancillary services that FERC has authorized to be sold at market-based rates in the Applicable Markets for such Project Company's Project.

"Annual Operations Report" means, in respect of each Project, an annual operations report for such Project substantially in the form of Exhibit E to the Common Agreement.

"Annual Scheduled Payment Date" means each (a) December 10th commencing on December 10, 2002 and ending on, and including, December 10, 2018, and (b) June 10, 2019.

"Applicable Markets" means, with respect to any Project, the markets for Energy Products and Services in which such Project is interconnected or in which such Project Company buys, sells or offers for delivery such products or services.

"Associated Support Obligations" means, with respect to a Project in connection with a Permitted Change of Control, the product of (a) the percentage of such Project, or the membership interests in the applicable Project Company, purchased by the Acceptable Assignee multiplied by (b) the sum of (i) the product of (A) the Allocation Percentage of the applicable Project Company multiplied by (B) the NRG Support Obligations under the Contingent Guaranty Agreement, prior to giving effect to such Permitted Change of Control (excluding NRG Energy's obligations under Sections 2.5 and 2.10 of the Contingent Guaranty Agreement), plus (ii) if such Project is the Bayou Cove Project or the Rockford II Project and such Permitted Change of Control occurs prior to Completion of such Project, 100% of NRG Energy's obligations under Section 2.5 of the Contingent Guaranty Agreement with respect to such Project, plus (iii) if such Project is the Big Cajun I Units 3&4 Project, 100% of NRG Energy's obligations under Section 2.10 of the Contingent Guaranty Agreement.

"Authorized Signatory" has the meaning given in Section 6.5 of the Depositary Agreement.

"Available Collateralized Deductible Funds" means, as of any date, the aggregate amount of (i) Account Funds on deposit in the Collateralized Deductible Account on such date, (ii) any Deductible Cash Collateral Deposits made and not reimbursed as of such date and (iii) amounts available for drawing on such date under any Acceptable Letter of Credit posted for the Collateralized Deductible Account or such Deductible Cash Collateral Deposits.

"Available Collateralized Experience Funds" means, as of any date, the aggregate amount of (i) Account Funds on deposit in the Collateralized Experience Account on such date, (ii) any Experience Cash Collateral Deposits made and not reimbursed as of such date and (iii) amounts available for drawing on such date under any Acceptable Letter of Credit posted for the Collateralized Experience Account or such Experience Cash Collateral Deposits.

"Bankruptcy" means, in respect of any Person, a Bankruptcy Event of such Person.

"Bankruptcy Event" shall be deemed to occur with respect to any Person if (a) such Person shall institute a voluntary case seeking liquidation or reorganization under Bankruptcy Law, or shall consent to the institution of an involuntary case thereunder against it; (b) such Person shall file a petition or consent or shall otherwise institute any similar proceeding under any other applicable Federal or state law, or shall consent thereto; (c) such Person shall apply for, or by consent there shall be an appointment of, a receiver, liquidator, sequestrator, trustee or other officer with similar powers for itself or any substantial part of its assets; (d) such Person shall make an assignment for the benefit of its creditors; (e) such Person shall admit in writing its inability to pay its debts generally as they become due; (f) an involuntary case shall be commenced seeking liquidation or reorganization of such Person under Bankruptcy Law or any similar proceedings shall be commenced against such Person under any other applicable Federal or state law and (i) the petition commencing the involuntary case is not timely controverted, (ii) the petition commencing the involuntary case is not dismissed within 60 days of its filing, (iii) an interim trustee is appointed to take possession of all or a portion of the property, and/or to operate all or any part of the business, of such Person and such appointment is not vacated within 60 days, or (iv) an order for relief shall have been issued or entered therein; (g) a decree or order

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of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee or other officer having similar powers of such Person or all or a part of its property shall have been entered; or (h) any other similar relief shall be granted against such Person under any applicable Federal or state law.

"Bankruptcy Law" means Title 11, United States Code, and any other state or federal insolvency, reorganization, moratorium or similar law for the relief of debtors, or any successor statute and, additionally, with respect to XLCA, Article 74 of the New York Insurance Law.

"Base Case Project Projections" means a projection of operating results for the Projects delivered pursuant to Section 3.1(n) of the Insurance and Reimbursement Agreement.

"Bayou Cove Assignment and Assumption Agreement" means the Assignment and Assumption Agreement between NRG Bayou Cove LLC and El Paso Merchant Energy Company, dated as of September 10, 2002.

"Bayou Cove Completion Obligations" has the meaning given in Section 3.14(a) of the Common Agreement.

"Bayou Cove Construction Costs" means, collectively, any and all costs (other than Uncovered Warranty Costs), expenses, fees, taxes or reimbursement obligations incurred by or on behalf of the Bayou Cove Project Company under or in connection with a Bayou Cove Equipment and Construction Contract or otherwise in connection with achieving Project Completion of the Bayou Cove Project, in each case on or prior to Completion of the Bayou Cove Project.

"Bayou Cove Contractors" means, collectively, each of the contractors, service providers and/or suppliers providing equipment and/or services to the Bayou Cove Project pursuant to the terms of any Bayou Cove Equipment and Construction Contract or any agent or subcontractor thereof.

"Bayou Cove Electric Interconnection Agreement" means the Interconnection and Operating Agreement between the Bayou Cove Project Company and Entergy Gulf States, Inc., effective as of October 18, 2001.

"Bayou Cove Electric Interconnection Facilities" means, collectively, the electric interconnection facilities, including any system upgrades, contemplated to be engineered, constructed, installed, tested, commissioned and completed pursuant to the Bayou Cove EPC Agreement (Electric Interconnection Facilities), the Bayou Cove Electric Interconnection Agreement and any sub-contract related thereto.

"Bayou Cove EPC Agreement (Balance of Plant)" means the Turnkey Contract among Stone & Webster, Inc., Shaw Constructors, Inc. and the Bayou Cove Project Company, dated as of November 21, 2001.

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"Bayou Cove EPC Agreement (Electric Interconnection Facilities)" means the Agreement for Engineering, Procurement and Construction between the Bayou Cove Project Company and Entergy Louisiana, dated as of October 31, 2001.

"Bayou Cove Equipment and Construction Contracts" means, collectively, (i) the Bayou Cove Turbine Purchase Agreement, (ii) the Bayou Cove Generator Step-Up Transformers Purchase Agreement, (iii) the Bayou Cove EPC Agreement (Balance of Plant), (iv) the Bayou Cove EPC Agreement (Electric Interconnection Facilities), (v) the Bayou Cove Electric Interconnection Agreement, and (vi) any other agreement or document (including any subcontracts) entered into with respect to achieving Project Completion for the Bayou Cove Project.

"Bayou Cove Gas Interconnection Agreement" means the Reimbursement, Construction, Ownership and Operating Agreement between the Bayou Cove Project Company and Egan Hub Partners, L.P., dated as of February 8, 2002.

"Bayou Cove Generator Step-Up Transformers Purchase Agreement" means the Generator Step-Up Transformers Contract Agreement between the Bayou Cove Project Company and ABB Power T&D Company, Inc., dated as of June 1, 2001.

"Bayou Cove Major Project Documents" means, collectively, (a) the Bayou Cove Electric Interconnection Agreement, the Bayou Cove Gas Interconnection Agreement and the Bayou Cove PSA Agreement, (b) any Additional Project Document for the Bayou Cove Project that replaces any of the agreements described in clause (a), (c) any Major Power Purchase Agreement, Major FSA or Major FTA for the Bayou Cove Project and (d) any Additional Project Document for the Bayou Cove Project that constitutes a material ground lease agreement, material electric interconnection agreement or material sharing agreement.

"Bayou Cove Membership Interest Purchase Agreement" means the Membership Interest Purchase Agreement between NRG Bayou Cove LLC and El Paso Remediation Company, dated as of September 10, 2001 by which NRG Bayou Cove LLC purchased all of El Paso Remediation Company's membership interests in the Bayou Cove Project Company, constituting 100% of the membership interests in the Bayou Cove Project Company.

"Bayou Cove Project" means the natural gas-fired electric generation facility owned by the Bayou Cove Project Company currently under construction near Jennings, Louisiana in Acadia Parish which, upon Completion, is expected to generate 295 MW (summer capacity) / 345 MW (winter capacity).

"Bayou Cove Project Company" means Bayou Cove Peaking Power, LLC, a Delaware limited liability company.

"Bayou Cove Project Documents" means all Project Documents for the Bayou Cove Project.

"Bayou Cove PSA Agreement" means the Power Sales and Agency Agreement between NRG Power Marketing and the Bayou Cove Project Company, dated as of the Closing Date, including the Fuel and Power Marketing Plan attached

thereto.

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"Bayou Cove Turbine Purchase Agreement" means the Turbine Purchase Site Specific Agreement between NRG Energy and General Electric Company, dated as of December 5, 2001, as assigned by NRG Energy to the Bayou Cove Project Company.

"Big Cajun Act of Cash Sale and Grant of Servitude" means the Act of Cash Sale and Grant of Servitude signed by Louisiana Generating and the Big Cajun Project Company on the Closing Date.

"Big Cajun Act of Subordination" means the Act of Subordination of Act of Mortgage, Pledge and Assignment of Leases and Rents executed by JPMorgan Chase Bank on June 13, 2002.

"Big Cajun PPA" means the Power Purchase Agreement among the Big Cajun Project Company, Louisiana Generating and NRG South Central, dated as of February 15, 2002.

"Big Cajun PSA Agreement" means the Power Sales and Agency Agreement between NRG Power Marketing and the Big Cajun Project Company, dated as of the Closing Date, including the Fuel and Power Marketing Plan attached thereto.

"Big Cajun Project Company" means Big Cajun I Peaking Power LLC, a Delaware limited liability company.

"Big Cajun I Units 3&4 Major Project Documents" means, collectively, (a) the Big Cajun PSA Agreement, the Big Cajun PPA, any Alternate Big Cajun PPA, the Big Cajun Shared Facilities Agreement, the Big Cajun Sale of Moveables in Place, the Big Cajun Switchyard Servitude Agreement and the Big Cajun Act of Cash Sale and Grant of Servitude, (b) any Additional Project Document for the Big Cajun I Units 3&4 Project that replaces any of the agreements described in clause (a), (c) any Major Power Purchase Agreement, Major FSA or Major FTA for the Big Cajun I Units 3&4 Project and (d) any Additional Project Document for the Big Cajun I Units 3&4 Project that constitutes a material ground lease agreement, material electric interconnection agreement or material sharing agreement.

"Big Cajun I Units 3&4 Project Documents" means all Project Documents for the Big Cajun I Units 3&4 Project.

"Big Cajun I Units 1&2 Project" means the approximately 220 MW natural gas-fired electric generation facility owned by Louisiana Generating, which is located in New Roads, Louisiana, adjacent to the Big Cajun I Units 3&4 Project.

"Big Cajun I Units 3&4 Project" means the approximately 204 MW (summer capacity) / 239 MW (winter capacity) natural gas-fired electric generation facility owned by the Big Cajun Project Company, which is located in New Roads, Louisiana adjacent to the Big Cajun I Units 1&2 Project.

"Big Cajun Sale of Moveables in Place" means the sale of Moveables in Place signed by Louisiana Generating and the Big Cajun Project Company on the Closing Date.

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"Big Cajun Shared Facilities Agreement" means the Shared Facilities Agreement between the Big Cajun Project Company and Louisiana Generating, dated as of the Closing Date.

"Big Cajun Switchyard Servitude Agreement" means the Switchyard Servitude Agreement between NRG New Roads Holding LLC and the Big Cajun Project Company dated June 18, 2002.

"Blocked Restricted Payment Amount" has the meaning given in Section 4.5(c) (i) of the Common Agreement.

"Bond Obligations" means each payment and performance obligation of the Issuer (monetary or otherwise and whether arising by acceleration or otherwise) arising under or in connection with the Indenture and the Series A Bonds, including in respect of payment of principal of, premium, if any, and interest on the Series A Bonds when due and payable and all other amounts or performances due or to become due under or in connection therewith.

"Bondholders" has the meaning given in the preamble to the Common Agreement.

"Bonds" means, collectively, the Series A Bonds and any Additional Bonds.

"Business Day" means any day other than a Saturday, Sunday, legal holiday or other day on which commercial banking institutions in New York are authorized or obligated by law, executive order or governmental decree to be closed.

"Calculation Agent" means The Bank of New York, or any successor Calculation Agent as appointed by the Issuer with the consent of XLCA (if XLCA is the Controlling Party) and the Swap Counterparty.

"Capital Lease Obligations" means, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) property to the extent such obligations are classified and accounted for as a capital lease on a balance sheet for such Person under GAAP, and, for purposes of the Financing Documents, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Capital Stock" means, with respect to any Person, any common stock, preferred stock and any other capital stock of such Person and shares, interests, participations or other ownership interest (however designated), of any Person and any rights (other than debt securities convertible into, or exchangeable for, capital stock or such other ownership interests), warrants, options or other rights to purchase any of the foregoing, including each class of common stock and preferred stock of such Person if such Person is a corporation and each general and/or limited partnership interest of such Person if such Person is a partnership and/or limited liability company interest of such Person if such Person is a limited liability company.

"Cash Available for Debt Service" means, for any period, all Operating Revenues received, or projected to be received (in accordance with revenue projections prepared by the Power and Fuel Market Consultant within 3 months prior to the determination of Cash Available

for Debt Service for such period), during such period minus all Operating Costs paid, or projected to be paid (in accordance with cost projections prepared by the Power and Fuel Market Consultant within 3 months prior to the determination of Cash Available for Debt Service for such period), during such period.

"Cash Collateral Accounts" has the meaning given in Section 7.6 of the Contingent Guaranty Agreement.

"Cash Collateral Deposits" means Experience Cash Collateral Deposits and Deductible Cash Collateral Deposits.

"Casualty Event" means any damage to or destruction of a Project.

"Casualty Insurance Proceeds" means any and all proceeds of any insurance, indemnity, warranty or guaranty payable from time to time with respect to any Casualty Event, other than business interruption insurance proceeds and similar proceeds.

"CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, 42 U.S.C. ss. 9601 et seq., as amended by the Superfund Amendments and Reauthorization Act of 1986, and all rules and regulations thereunder.

"Closing Date" means June 18, 2002.

"Closing Date Account" means an account established by the Issuer solely for the purposes of receiving and disbursing the proceeds of the sale of the Series A Bonds on the Closing Date and to be used solely for such purposes, which account shall be closed on or shortly after the Closing Date.

"Co-Collateral Agent" means the co-collateral agent appointed pursuant to Section 11.8 of the Common Agreement.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute.

"Collateral" means, collectively, the Issuer Collateral and all Project Company Collateral.

"Collateral Agent" has the meaning given in the preamble to the Common Agreement.

"Collateral Documents" means, collectively, the Issuer Collateral Documents and all Project Company Collateral Documents.

"Collateralized Deductible Account" has the meaning given in Section 2.1 of the Depositary Agreement.

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"Collateralized Deductible Amount" means (a) the Deductible Limit minus (b) the aggregate of all Deductible Payments previously made by NRG Energy which have not been reimbursed to NRG Energy pursuant to Section 4.2.1 of the Depositary Agreement.

"Collateralized Experience Account" has the meaning given in Section 2.1 of the Depositary Agreement.

"Collateralized Experience Amount" means, as of any Annual Scheduled Payment Date, the sum of the Collateralized Experience Amount (Project) for all Projects as of such Annual Scheduled Payment Date; provided, however, that if either (a) NRG Energy's ratings or the Shadow Ratings for the Series A Bonds fall below Investment Grade from Moody's or S&P, or (b) the Debt Service Coverage Ratio for the previous 12 months is below 1.20 to 1.00, then the Collateralized Experience Amount as of such Annual Scheduled Payment Date shall be equal to 200% of Scheduled Debt Service due on the next Annual Scheduled Payment Date; provided, further, that if the event described in clause (b) of the foregoing proviso occurs and NRG Energy's ratings as of such Annual Scheduled Payment Date are at least Baa2 from Moody's and BBB from S&P, then the Collateralized Experience Amount as of such Annual Scheduled Payment Date shall be equal to 150% of Scheduled Debt Service due on the next Annual Scheduled

Payment Date.

"Collateralized Experience Amount (Project)" means, as of any Annual Scheduled Payment Date, with respect to a Project, the product of (x) Scheduled Debt Service due on the next Annual Scheduled Payment Date multiplied by (y) the Allocation Percentage for the applicable Project Company; provided, however, that during a Tolling Period with respect to such Project, the Collateralized Experience Amount (Project) with respect to such Project shall be an amount equal to 50% of the product of (x) Scheduled Debt Service due on the next Annual Scheduled Payment Date and (y) the Allocation Percentage for the applicable Project Company.

"ComEd" means Commonwealth Edison Company, an Illinois corporation.

"Common Agreement" means that certain Common Agreement, dated as of the Closing Date, among XLCA, the Swap Counterparty, the Trustee, the Collateral Agent, the Issuer and each Project Company.

"Complete" or "Completion" means, with respect to each of the Bayou Cove Project and the Rockford II Project, the earliest date on which all of the following shall have occurred:

(a) such Project shall have achieved Project Completion and the Controlling Party shall have received a certificate of the Independent Engineer to that effect, which certificate will be in form and substance reasonably satisfactory to XLCA if XLCA is the Controlling Party;

(b) with respect to the Bayou Cove Project only, either (i) all Punch List Items for the Bayou Cove Project shall have been completed and paid for in full or (ii) the Bayou Cove Project Company shall have itemized all Punch List Items for the Bayou Cove Project, which list shall have been confirmed by the Independent Engineer, and the

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deposit into the Punch List Account required pursuant to Section 4.8 of the Depositary Agreement with respect to such Punch List Items shall have been made in full;

(c) with respect to the Rockford II Project only, either (i) all Punch List Items for the Rockford II Project shall have been completed and paid for in full, or (ii) the Rockford II Project Company shall have itemized all Punch List Items for the Rockford II Project, which list shall have been confirmed by the Independent Engineer, and the deposit into the Punch List Account required pursuant to Section 4.8 of the Depositary Agreement with respect to such Punch List Items shall have been made in full;

(d) all material Permits required for operation of such Project (including all certificates of occupancy for such Project) shall have been obtained and shall be in full force and effect and shall not be subject to any pending appeal, intervention, or similar proceeding that could reasonably be expected to have a Project Material Adverse Effect, and the Controlling Party shall have received copies of all such Permits and all fees and charges associated therewith shall have been paid in full;

(e) with respect to the Bayou Cove Project only, (i) all Bayou Cove Construction Costs shall have been paid in full (other than those subject to a good faith dispute and for which adequate reserves in accordance with GAAP have been set aside), (ii) either (x) all

performance guarantees under the Bayou Cove Equipment and Construction Contracts shall have been satisfied in full or (y) the minimum performance standards specified therein shall have been satisfied and all Performance Liquidated Damages to be paid (including by way of NRG Energy or any Affiliate thereof making payments into the Acquisition Indemnity/Performance LD Reserve Account) pursuant to the Bayou Cove Equipment and Construction Contracts shall have been paid in full to the Bayou Cove Project Company without regard for any limitations placed on the payment of Liquidated Damages in the Bayou Cove Equipment and Construction Contracts (other than those subject to a good faith dispute in an amount not to exceed \$5,000,000 in the aggregate, taking into account any and all retainage amounts also subject to a good faith dispute), (iii) any retainage or other amounts withheld from payment to any Bayou Cove Contractor under a Bayou Cove Equipment and Construction Contract shall have been paid over in full to the relevant Bayou Cove Contractor (other than those which are (A) deposited into the Punch List Account or (B) subject to a good faith dispute in an amount not to exceed \$5,000,000 in the aggregate, taking into account any and all Performance Liquidated Damages also subject to a good faith dispute), and (iv) any lien or encumbrance over any portion of the Bayou Cove Project in favor of a Bayou Cove Contractor shall have been released and discharged in full (other than Project Company Permitted Liens); and

(f) with respect to the Rockford II Project only, (i) the Rockford II Construction Costs shall have been paid in full (other than those subject to a good faith dispute and for which adequate reserves in accordance with GAAP have been set aside), (ii) either (x) all performance guarantees under the Rockford II Equipment and Construction Contracts shall have been satisfied in full or (y) the minimum performance standards specified therein shall have been satisfied and all Performance Liquidated Damages to be paid (including by way of NRG Energy or any Affiliate thereof making

payments into the Acquisition Indemnity/Performance LD Reserve Account) by the Rockford II Contractors pursuant to the Rockford II Equipment and Construction Contracts shall have been paid to the Rockford II Project Company without regard for any limitations placed on the payment of Liquidated Damages in the Rockford II Equipment and Construction Contracts (other than those subject to a good faith dispute in an amount not to exceed \$5,000,000 in the aggregate, taking into account any and all retainage amounts also subject to a good faith dispute), (iii) any retainage or other amounts withheld from payment to any Rockford II Contractor under a Rockford II Equipment and Construction Contract shall have been paid over in full to the relevant Rockford Contractor (other than those which are (A) deposited into the Punch List Account or (B) subject to a good faith dispute in an amount not to exceed \$5,000,000 in the aggregate taking into account any and all Performance Liquidated Damages also subject to a good faith dispute), (iv) any lien or encumbrance over any portion of the Rockford II Project in favor of a Rockford II Contractor shall have been released and discharged in full (other than Project Company Permitted Liens), and (v) title to all equipment acquired for the Rockford II Project under the Rockford II Equipment and Construction Contracts shall have been duly transferred to the Rockford II Project Company free and clear of all liens (other than Project Company Permitted Liens).

"Completion Date" means, in respect of the Bayou Cove Project and the Rockford II Project, the date upon which such Project achieves Completion.

"Completion Tests" has the meaning given in Section 3.2(a)(vii) of the Common Agreement.

"Condemnation Event" means any Project (or any portion thereof) is condemned, confiscated, requisitioned, captured, seized or subjected to forfeiture, or title thereto is taken, by any Governmental Authority.

"Condemnation Proceeds" means any and all payments (in any form whatsoever) made or due and payable from time to time in connection with any Condemnation Event by any Governmental Authority (or any person acting under color of Governmental Authority).

"Consents" means, collectively, the third-party consents and assignments required pursuant to Section 3.1(f)(ii) of the Insurance and Reimbursement Agreement or Section 5.16(b) of the Common Agreement.

"Consolidated Net Tangible Assets" has the meaning given in Section 4.1(ii) of the Contingent Guaranty Agreement.

"Contingent Guaranty Agreement" means the Contingent Guaranty Agreement, dated as of the Closing Date, by NRG Energy in favor of the Collateral Agent.

"Construction Contractors" means, as applicable, the Bayou Cove Contractors or the Rockford II Contractors.

"Construction Contracts" means, as applicable, the Bayou Cove Equipment and Construction Contracts or the Rockford II Equipment and Construction Contracts.

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"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Issuer or any Project Company, are treated as a single employer under Section 414(b), (c), (m) or (o) of the Code or under Section 4001(b)(1) of ERISA.

"Controlling Party" means XLCA for so long as either of the Policies shall be effective and there shall not have occurred and be continuing an Insurer Default and, at all other times, the requisite number or percentage of Bondholders acting pursuant to the Indenture.

"Debt" of any Person at any date means, without duplication, (a) such Person's Debt for Borrowed Money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business (which exception is intended to encompass ordinary course obligations under the Project Documents), (d) all Capitalized Lease Obligations of such Person, (e) all obligations of such Person to purchase securities (or other property) which arise out of or in connection with the sale of the same or substantially similar securities (or property), (f) all deferred obligations of such Person to reimburse any bank or other Person in respect of amounts paid or advanced under a letter of credit or other instrument, (g) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, and (h) all Debt (or other obligations) of others guaranteed directly or indirectly by such Person or as to which such Person has an obligation substantially the economic equivalent of a guaranty (provided that, for purposes determining the amount of any Debt of the type described in this clause (h), if the amount of such guaranty or similar obligation is less than the full amount of the Debt or other obligation guaranteed, the amount of such Debt shall be limited to the amount of such guaranty or similar obligation).

"Debt for Borrowed Money" means, with respect to any Person,

all obligations of such person for borrowed money.

"Debt Payment Account" has the meaning given in Section 2.1 of the Depositary Agreement.

"Debt Service Coverage Ratio" means, for any period, the ratio of (a) all Cash Available for Debt Service for such period to (b) all Scheduled Debt Service due during such period.

"Debt Service Shortfall" means, with respect to any Annual Scheduled Payment Date, the amount, if any, by which (a) Scheduled Debt Service on such date exceeds (b) funds in the Debt Payment Account available therefor in accordance with the terms of Section 4.2 of the Depositary Agreement, without giving effect to funding sources other than those described in priorities First, Second and Third of Section 4.2.3 of the Depositary Agreement.

"Deductible Cash Collateral Deposit" has the meaning given in Section 2.3(b) of the Contingent Guaranty Agreement.

"Deductible Limit" means \$56,679,911

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"Deductible Payment" means (a) any payment made by NRG Energy pursuant to Section 2.3(a) of the Contingent Guaranty Agreement and (b) any amount applied pursuant to priority Eighth or Ninth in Section 4.2.3 of the Depositary Agreement.

"Deductible Termination Payment" has the meaning given in Section 2.3(c) of the Contingent Guaranty Agreement.

"Delay Amounts" means Delay Liquidated Damages, proceeds under delay in start-up or similar insurance and other similar amounts.

"Delay Liquidated Damages" means all amounts paid under a Project Document as liquidated damages for failure to complete all or a portion of a Project, or failure to deliver equipment for a Project, by the date set forth for completion or delivery thereof in such Project Document, including amounts paid under guaranties, letters of credit and other support instruments for such purposes.

"Depositary Agent" means The Bank of New York, in its capacity as depositary agent and securities intermediary under the Depositary Agreement, or its successor appointed pursuant to the terms of the Depositary Agreement.

"Depositary Agreement" means the Security Deposit Agreement, dated as of the Closing Date, among the Issuer, each Project Company, the Collateral Agent and the Depositary Agent.

"Depositary Obligations" means each payment and performance obligation of the Issuer under the Depositary Agreement.

"Designated Monthly Date" means any date specified by the Issuer in a Disbursement Request. The Designated Monthly Date may vary from time to time, but there shall not be more than one Designated Monthly Date in any given month.

"Determination Date" means, October 31 of each year with the first such date being October 31, 2002 and the last such date being October 31, 2018.

"Determination Period" means (a) the period from the Closing Date through and including October 31, 2002, and (b) thereafter, each period from November 1 of each year through and including October 31 of the following year.

"Disbursement Project Event of Default" means a Project Event of Default with respect to a Project for which a disbursement of Loss Proceeds is being requested pursuant to Section 4.7.2 of the Depositary Agreement.

"Disbursement Request" means a Disbursement Request substantially in the form of Exhibit A to the Depositary Agreement.

"Distribution Account" has the meaning given in Section 2.1 of the Depositary Agreement.

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"Dollars" and "\$" mean United States dollars or such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts in the United States of America.

"Early Termination Date" has the meaning given in Section 2.2(d) of the Contingent Guaranty Agreement.

"Easements" means, with respect to any parcel of real property, (a) all agreements, easements, rights of way or use, rights of ingress or egress, privileges, appurtenances, tenements, hereditaments and other rights and benefits appurtenant, belonging or pertaining to such parcel, including the use of any streets, ways, alleys, vaults or strips of land adjoining, abutting, adjacent or contiguous to such parcel, and (b) all permits, licenses and rights, whether or not of record, appurtenant to such parcel.

"Effective Date" means the date on which the Policies are issued.

"Eligible Facility" means an eligible facility within the meaning of Section 32(a)(2) of PUHCA.

"Energy Products and Services" means, collectively, Power, Ancillary Services, Fuel Products and Other Energy-Related Products and Services.

"Energy Transaction Costs" means all costs (including liquidated damages or other damages or penalties) incurred by a Project Company in connection with the purchase, sale, resale or other use of Energy Products and Services, including Fuel Costs, Hedging Costs and costs under such Project Company's Power Sales and Agency Agreement.

"Entergy Louisiana" means Entergy Louisiana, Inc., a Louisiana corporation.

"Environmental Claim" means any claim, notice of claim, complaint, notice of violation, letter or other written assertion of any kind concerning any asserted or actual violation of or liability under any Hazardous Substances Law or any asserted or actual violation or liability relating to any Hazardous Substance.

"Environmental Consultant" means (a) if XLCA is the Controlling Party, an environmental consultant reasonably acceptable to XLCA (which shall include URS Corporation and P.E. LaMoreau & Associates, Inc.), and (b) if XLCA is not the Controlling Party, an independent nationally recognized environmental consultant.

"Environmental Reports" means, with respect to a Project, the environmental reports delivered to XLCA in accordance with Section 3.1(v) of the Insurance and Reimbursement Agreement for such Project.

"Environmental Subject Claims" has the meaning given in Section 9.1(b) of the Common Agreement.

"Equity Documents" means the Contingent Guaranty Agreement and any Additional Contingent Guaranty Agreement.

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"Equity Party" means NRG Energy and any Acceptable Assignee.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Plan" means any employee benefit plan covered by Title IV of ERISA or to which Section 412 of the Code applies.

"Exelon" means Exelon Generating Company, LLC, a Delaware limited liability company.

"Excluded Revenues" means, collectively, proceeds from the sale of the Series A Bonds on the Closing Date, Delay Amounts, payments by NRG Energy to any Project Company pursuant to Section 2.5 or 2.6 of the Contingent Guaranty Agreement, Peaker Buyout Profits and proceeds received in connection with a Permitted Change of Control.

"Exempt Wholesale Generator" means an exempt wholesale generator within the meaning of Section 32(a)(1) of PUHCA.

"Experience Accrual Amount" has the meaning given in Appendix II to the Contingent Guaranty Agreement.

"Experience Amount Percentage" means, with respect to a Project Company, the percentage of the Total Experience Amount attributed to such Project Company.

"Experience Cash Collateral Deposit" has the meaning given in Section 2.2(c) of the Contingent Guaranty Agreement.

"Experience Payment" has the meaning given in Section 2.2(b) of the Contingent Guaranty Agreement.

"Experience Reduction Amount" has the meaning given in Appendix II to the Contingent Guaranty Agreement.

"Experience Termination Payment" has the meaning given in Section 2.2(d) of the Contingent Guaranty Agreement.

"FERC" means the Federal Energy Regulatory Commission and any successor thereto.

"Final Scheduled Payment Date" means June 10, 2019.

"Financing Documents" means the Common Agreement (including the Guaranty of each Project Company), the Policy, the Swap Policy, the Premium Letter, the Insurance and Reimbursement Agreement, the Indenture, the Bonds, the Swap Agreement, the Equity Documents, the Collateral Documents, the Depositary Agreement, the Project Loan Agreements, the Project Loan Notes, the Consents, the Lease Estoppels, the Nondisturbance Agreements, the Rockford I Lien Subordination Agreement, the Big Cajun Act of Subordination, and each other

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agreement, document, certificate or instrument entered into or delivered in connection therewith by any Financing Party or any Equity Party and any Secured Party in connection with the Transaction, whether or not specifically mentioned

therein, provided that neither the Purchase Agreement nor any other agreement between a Financing Party and the Initial Purchaser shall be a "Financing Document."

"Financing Parties" means the Issuer and each Project Company.

"Fiscal Agent" means the fiscal agent, if any, designated pursuant to the terms of the Policies.

"FPA" means the Federal Power Act, as amended.

"Fuel and Power Marketing Plan" means, with respect to a Project Company, the Fuel and Power Marketing Plan attached as Exhibit A to the Power Sales and Agency Agreement to which such Project Company is a party.

"Fuel Costs" means all costs associated with Fuel Products, including imbalance charges and applicable taxes.

"Fuel Products" means Natural Gas supply and transportation and other fuel and fuel-related products and services.

"Funding Project Company" has the meaning given to in Section 6.14 of the Common Agreement.

"Fundamental Project Event of Default" has the meaning given in Section 7.3 of the Common Agreement.

"Funds Block Condition" means, in each case as applicable, any Issuer Event of Default, Issuer Inchoate Default, Project Event of Default, Project Inchoate Default, Inchoate Block Condition or Inchoate Project Block Condition.

"GAAP" means generally accepted accounting principles in the United States of America consistently applied.

"General Subject Claims" has the meaning given in Section 9.1(a) of the Common Agreement.

"Governmental Authority" means any applicable national, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, bureau or entity (including any zoning authority, FERC and the applicable PUC) or any arbitrator with authority to bind a party at law.

"Governmental Rule" means any applicable law, rule, regulation, ordinance, order, code interpretation, treaty, judgment, decree, directive, guideline, policy or similar form of decision of any Governmental Authority.

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"Ground Lease" means each of the Rockford I Ground Lease, the Rockford II Ground Lease and the Sterlington Ground Lease.

"Guaranteed Obligations" has the meaning given in Section 6.1(a) of the Common Agreement.

"Guaranty" means, in respect of a Project Company, its guaranty pursuant to Article 6 of the Common Agreement.

"Hazardous Substance" means any of the following: (a) any petroleum or petroleum product, explosives, radioactive materials, asbestos, formaldehyde, polychlorinated biphenyls, lead or radon gas; or (b) any substance, material, product, derivative, compound or mixture, mineral,

chemical, waste, gas, medical waste or pollutant that is regulated under or that could reasonably be expected to support the assertion of a claim under any Hazardous Substances Law, whether or not defined as hazardous under any Hazardous Substances Laws.

"Hazardous Substances Law" means, any applicable law, statute, ordinance, code, rule, regulation, license, permit, authorization, approval, covenant, administrative or court order, judgment, decree, injunction, code or requirement of or any agreement with, any Governmental Authority:

(a) relating to pollution (or the cleanup, removal or remediation thereof, or any other response thereto), human health, safety, natural resources or the environment, including ambient or indoor air, water vapor, surface water, groundwater, drinking water, land (including surface or subsurface), plant, aquatic and animal life; or

(b) concerning exposure to, or the use, containment, storage, recycling, treatment, generation, Release or threatened Release, transportation, processing, handling, labeling, containment, production, disposal or remediation of any Hazardous Substance,

in each case as amended and as now or hereafter in effect, and any common law or equitable doctrine (including injunctive relief and tort doctrines such as negligence, nuisance, trespass and strict liability) that may impose liability or obligations for injuries (whether personal or property) or damages due to or threatened as a result of the presence of, exposure to, or ingestion of, any Hazardous Substance, whether such common law or equitable doctrine is now or hereafter recognized or developed. "Hazardous Substances Laws" include CERCLA; the Resource Conservation and Recovery Act of 1976, 42 U.S.C.ss.ss.6901 et seq.; the Federal Water Pollution Control Act, 33 U.S.C.ss.ss.1251 et seq.; the Clean Air Act, 42 U.S.C.ss.ss.7401 et seq.; the Refuse Act, 33 U.S.C.ss.ss.401 et seq.; the Hazardous Materials Transportation Act of 1975, 49 U.S.C.ss.ss.1801-1812; the Toxic Substances Control Act, 15 U.S.C.ss.ss.2601 et seq.; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C.ss.ss.136 et seq.; the Safe Drinking Water Act, 42 U.S.C.ss.ss.300 et seq.; and the Occupational Safety and Health Act of 1970.

"Hedging Costs" means costs associated with options and other hedging arrangements entered into in connection with the purchase, sale, resale or other use of Energy Products and Services.

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"Improvements" has the meaning given in the applicable Mortgage.

"Inchoate Block Conditions" means, as of any date, that there shall have occurred and be continuing an Issuer Inchoate Default or that an Issuer Inchoate Default would have occurred if a Restricted Payment would have been made on such date.

"Inchoate Project Block Condition" means, as of any date, that there shall have occurred and be continuing a Project Inchoate Default or that a Project Inchoate Default would have occurred if a Restricted Payment would have been made on such date.

"Indemnatee" has the meaning given in Section 9.1(a) of the Common Agreement.

"Indenture" means the Indenture, dated as of the Closing Date, among the Issuer, the Project Companies, XLCA and the Trustee.

"Independent Consultants" means, collectively, the Insurance Consultant, the Independent Engineer and the Power and Fuel Market Consultant.

"Independent Engineer" has the meaning given in Section 10.1(a) of the Common Agreement.

"Indexed Net Revenue" shall have the meaning set forth in Appendix I to the Contingent Guaranty Agreement.

"Initial Purchaser" means Goldman Sachs International.

"Initial Restricted Payment Date" means any Annual Scheduled Payment Date or any date within 30 days thereafter.

"Insurance and Reimbursement Agreement" means the Financial Guaranty Insurance and Reimbursement Agreement, dated as of the Closing Date, among XLCA, the Issuer and the Project Companies.

"Insurance Consultant" has the meaning given in Section 10.1(b) of the Common Agreement.

"Insurer Default" means the existence and continuance of any of the following: (a) a failure by XLCA to make a payment when or as required under the Policy in accordance with its terms or under the Swap Policy in accordance with its terms; or (b) (i) XLCA (A) files any petition or commences any case or proceeding under any provision or chapter of the Bankruptcy Law or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization, (B) makes a general assignment for the benefit of its creditors, or (C) has an order for relief entered against it under the Bankruptcy Law or any other similar federal or state law relating to insolvency, bankruptcy, rehabilitation, liquidation or reorganization which is final and nonappealable; or (ii) a court of competent jurisdiction, the New York Department of Insurance or other competent regulatory authority enters a final and nonappealable order, judgment or decree (A) appointing a custodian, trustee, agent or receiver for XLCA or for all or any material portion of its property or (B) authorizing the taking of

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possession by a custodian, trustee, agent or receiver of XLCA (or the taking of possession of all or any material portion of the property of the XLCA).

"Interconnection Solution" means, with respect to the Big Cajun I Units 3&4 Project, the implementation and effectiveness, in a manner satisfactory to XLCA in its absolute discretion (if it is the Controlling Party), of any of the following methods for obtaining direct contractual electric interconnection access rights for the Big Cajun I Units 3&4 Project with the Entergy transmission system (or any successor transmission system): (i) the assignment of a portion of Louisiana Generating's rights under the Louisiana Generating Interconnection Agreement to the Big Cajun Project Company; (ii) the amendment of the Louisiana Generating Interconnection Agreement, as appropriate, to include the Big Cajun I Units 3&4 Project and the Big Cajun Project Company; (iii) the execution of a separate interconnection agreement directly between the Big Cajun Project Company and Entergy or its relevant Affiliate (or any successor thereto); or (iv) any other method of obtaining such direct contractual electric interconnection access rights, in each case effected by assignments, amendments or new agreements, as the case may be, and such other documentation as XLCA (if it is the Controlling Party) shall reasonably request.

"Investment Grade" means, with respect to any debt instrument or Person, a rating of at least Baa3 by Moody's and at least BBB- by S&P (or, in each case, an equivalent rating by another nationally recognized credit rating agency if either of such rating agencies is not then rating the subject debt instrument or Person).

"Issuer" has the meaning given in the preamble to the Common Agreement.

"Issuer Collateral" means, collectively, all real, personal and mixed property which is subject or is intended to become subject to the security interests or Liens granted pursuant to any of the Issuer Collateral Documents; provided that "Issuer Collateral" shall not include any Released Assets (as defined in any Issuer Collateral Document).

"Issuer Collateral Documents" means, collectively, the Depositary Agreement, the Issuer Security Agreement, the Issuer Pledge Agreement, any other agreement or instrument granting a Lien on the real, personal and/or mixed property of Issuer in favor of the Collateral Agent for the benefit of the Secured Parties, and any financing statements, notices and the like filed, recorded or delivered in connection with the foregoing.

"Issuer Event of Default" has the meaning given in Section 7.1 of the Common Agreement.

"Issuer Inchoate Default" means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time and/or the giving of notice, would constitute an Issuer Event of Default.

"Issuer Material Adverse Effect" means:

(a) a material adverse change in the business, property, results of operation or financial condition of the Issuer and the Project Companies (taken as a whole); or

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(b) any event or occurrence of whatever nature which could reasonably be expected to materially and adversely effect (i) the ability of the Issuer and the Project Companies (taken as a whole) to perform their respective obligations under any of the Financing Documents, or (ii) the validity or enforceability of the Operative Documents (taken as a whole); or

(c) any event or occurrence of whatever nature which could reasonably be expected to materially and adversely effect the validity and priority of the Secured Parties' security interests in the Collateral (taken as a whole);

provided that (i) any adverse change in the Natural Gas supply market or the Power market after the Closing Date which could cause a change in the conditions or market forecasts contained in the reports delivered on the Closing Date by the Power and Fuel Market Consultant shall not be deemed to, in and of itself, have an "Issuer Material Adverse Effect", and (ii) a downgrade in any rating assigned to the Issuer, any Project Company, any Affiliate thereof, the Obligations, the Transaction or any Tranche shall not be deemed to, in and of itself, be an "Issuer Material Adverse Effect".

"Issuer Permitted Debt" means (a) Debt of the Issuer under the Financing Documents (including Additional Bonds), (b) unsecured Debt which is subordinated to the Obligations in accordance with the terms set forth in Exhibit H to the Common Agreement, (c) unsecured guaranties by the Issuer of the obligations of the Project Companies to pay Energy Transaction Costs (or, without duplication, unsecured guaranties by the Issuer of NRG Power Marketing to pay Energy Transaction Costs in connection with any transaction entered into by NRG Power Marketing as principal in accordance with a Power Sales and Agency Agreement), (d) the Subordinated Bonds, and (e) Project Company Permitted Debt incurred by the Issuer and on-lent to the Project Companies.

"Issuer Permitted Liens" means, collectively, (a) the Lien, security interests and related rights and interests of the Secured Parties as provided in the Financing Documents (including Liens securing Additional Bonds); (b) Liens for any tax, assessment or other governmental charge either not yet due or being contested in good faith and by appropriate proceedings, so long as

(i) such proceedings shall not involve any substantial danger of the sale, forfeiture or substantial loss of a Project, the related Site or any related Easements, title thereto or any material interest therein and shall not interfere in any material respect with the use or disposition of such Project, Site or Easements, or (ii) a bond or other security reasonably acceptable to the Collateral Agent has been posted or provided in such manner and amount as to reasonably assure the Collateral Agent that any taxes, assessments or other charges reasonably determined to be due will be promptly paid in full when such contest is determined; (c) Liens arising out of judgments or awards so long as an appeal or proceeding for review is being prosecuted in good faith and for the payment of which adequate reserves, bonds or other security reasonably acceptable to the Collateral Agent have been provided or the payment of which is fully covered by insurance reasonably acceptable to the Collateral Agent; (d) Liens securing the Subordinated Bonds on terms set forth in Exhibit I to the Common Agreement; (e) Liens securing the Issuer Permitted Debt referred to in paragraph (e) of the definition of Issuer Permitted Debt to the extent the applicable Project Company Permitted Debt is permitted to be secured, and (f) Liens contemplated in Section 9.01(2) of the Indenture.

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"Issuer Pledge Agreement" means the Issuer Pledge Agreement, dated as of the Closing Date, among the Issuer, NRG Capital II LLC and the Collateral Agent.

"Issuer Security Agreement" means the Issuer Security Agreement, dated as of the Closing Date, between the Issuer and the Collateral Agent.

"Late Payment Rate" means the lesser of (a) the greater of the per annum rate of interest, publicly announced from time to time by The Bank of New York in New York City, as its prime rate plus 2%, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of a 360 day year for the actual number of days elapsed for such period. The Late Payment Rate shall be calculated, in good faith, by the Calculation Agent.

"Lease Estoppels" means, collectively, the Rockford I Lease Estoppel, the Rockford II Lease Estoppel and the Sterlington Lease Estoppel.

"Legal Requirement" means, as to any Person, the articles of incorporation, bylaws or other organizational or governing documents of such Person, and any requirement under a Permit, and any Governmental Rule, in each case applicable to or binding upon such Person or any of its properties or to which such Person or any of its property is subject.

"Lien" means, with respect to an asset, any mortgage, deed of trust, lien, pledge, charge, security interest, easement or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected or effective under applicable law, as well as the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Liquidated Damages" means, collectively, Delay Liquidated Damages and Performance Liquidated Damages.

"Loan Life Coverage Ratio" means, for any period, (i) the sum of Cash Available for Debt Service for all remaining Scheduled Debt Service Payment periods, divided by (ii) the sum of all remaining unpaid Scheduled Debt Service Payments.

"LOC Substitution Date" means any date upon which an Acceptable Letter of Credit is provided to the Collateral Agent instead of, or in replacement of, cash on deposit in any Account or Cash Collateral Account, as the case may be.

"Loss Proceeds" means, collectively, Casualty Insurance Proceeds and Condemnation Proceeds.

"Loss Proceeds Account" has the meaning given in Section 2.1 of the Depositary Agreement.

"Louisiana Generating" means Louisiana Generating LLC, a Delaware limited liability company.

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"Louisiana Generating Interconnection Agreement" means the Interconnection and Operating Agreement between Louisiana Generating and Entergy Gulf States, Inc. filed with FERC on June 11, 2002.

"MAIN Market Region" means the region covered by the Mid-America Interconnected Network regional reliability council.

"Major FSAs" with respect to a Project Company, has the meaning given in the Fuel and Power Marketing Plan attached as Exhibit A to the Power Sales and Agency Agreement to which such Project Company is a Party.

"Major FTAs" with respect to a Project Company, has the meaning given in the Fuel and Power Marketing Plan attached as Exhibit A to the Power Sales and Agency Agreement to which such Project Company is a Party.

"Major Power Purchase Agreement" with respect to a Project Company, has the meaning given in the Fuel and Power Marketing Plan attached as Exhibit A to the Power Sales and Agency Agreement to which such Project Company is a Party.

"Major Project Documents" means (a) in respect of the Bayou Cove Project and the Bayou Cove Project Company, the Bayou Cove Major Project Documents, (b) in respect of the Big Cajun I Units 3&4 Project and the Big Cajun Project Company, the Big Cajun Units 3&4 Major Project Documents, (c) in respect of the Sterlington Project and the Sterlington Project Company, the Sterlington Major Project Documents, (d) in respect of the Rockford I Project and the Rockford I Project Company, the Rockford I Major Project Documents, and (e) in respect of the Rockford II Project and the Rockford II Project Company, the Rockford II Major Project Documents.

"Major Project Participants" means, with respect to a Project, the Project Company that owns such Project and each other party to the Major Project Documents entered into for such Project.

"Mezzanine Tranche" means the portion of the Policy initially insuring \$332,352,000 of principal and interest in respect of the Series A Bonds representing the second loss layer of the Policy to be drawn in the event of a Policy Payment.

"Monthly Date" means the 10th day of each month.

"Moody's" means Moody's Investors Service, Inc., or any successor thereto, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the Issuer; provided, that with respect to the rating of the Bonds, the designation shall be with the consent of XLCA (if XLCA shall be the Controlling Party).

"Mortgaged Properties" has the meaning given in the applicable Mortgage.

"Mortgages" means, collectively, each of the mortgages encumbering the Sites and/or Easements related to the Projects as security for

the Guaranteed Obligations.

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"Natural Gas" any mixture of hydrocarbons and non-combustible gases as a gaseous state consisting primarily of methane.

"Net Peaker Buyout Proceeds" means Peaker Buyout Proceeds minus Peaker Buyout Profits.

"New Revolving Credit Facility" means a new revolving credit facility entered into by NRG Energy which refinances all outstanding loans and commitments under the 364 Day Revolver or any New Revolving Credit Facility.

"Nondisturbance Agreements" means, collectively, the Rockford I Non-Disturbance Agreement and the Rockford II Non-Disturbance Agreement.

"Non-Funding Project Company" has the meaning given in Section 6.14 of the Common Agreement.

"Nonrecourse Persons" has the meaning given in Article 8 of the Common Agreement.

"Notice" has the meaning assigned to such term in the Policies.

"NRG Credit Risk Policy" with respect to a Project Company, has the meaning given in the Power Sales and Agency Agreement to which such Project Company is a party.

"NRG Energy" means NRG Energy, Inc., a Delaware corporation.

"NRG Energy Material Adverse Effect" means:

(a) a material adverse change in the business, property, results of operations or financial condition of NRG Energy; or

(b) any event or occurrence of whatever nature which could reasonably be expected to materially and adversely effect (i) the ability of NRG Energy to perform its obligations under the Contingent Guaranty Agreement or (ii) the validity or enforceability of the Contingent Guaranty Agreement;

provided that a downgrade in any rating assigned to NRG Energy or its debt obligations shall not be deemed, in and of itself, to be a "NRG Energy Material Adverse Effect".

"NRG Event of Default" has the meaning given in Section 13 of the Contingent Guaranty Agreement.

"NRG Guaranteed Obligations" has the meaning given in Section 2 of the Contingent Guaranty Agreement.

"NRG Permitted Liens" means, collectively, (a) Liens for any tax, assessment or other governmental charge either not yet due or being contested in good faith and by appropriate proceedings, so long as (i) such proceedings shall not involve any substantial danger of the sale,

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forfeiture or substantial loss of a Project, the related Site or any related Easements, title thereto or any material interest therein and shall not

interfere in any material respect with the use or disposition of such Project, Site or Easements, or (ii) a bond or other security reasonably acceptable to the Collateral Agent has been posted or provided in such manner and amount as to reasonably assure the Collateral Agent that any taxes, assessments or other charges reasonably determined to be due will be promptly paid in full when such contest is determined; and (b) Liens arising out of judgments or awards so long as an appeal or proceeding for review is being prosecuted in good faith and for the payment of which adequate reserves, bonds or other security reasonably acceptable to the Collateral Agent have been provided or the payment of which is fully covered by insurance reasonably acceptable to the Collateral Agent.

"NRG Power Marketing" means NRG Power Marketing, Inc., a Delaware corporation.

"NRG South Central" means NRG South Central Generating LLC, a Delaware limited liability company.

"NRG Support Obligations" has the meaning given in Section 2 of the Contingent Guaranty Agreement.

"Obligations" means the Bond Obligations, the Reimbursement Obligations, the Depositary Obligations, the Swap Obligations and the obligations of each Project Company under its Guaranty.

"Offering Circular" means the final offering circular, dated June 14, 2002, in respect of the Series A Bonds and, unless otherwise stated, the Preliminary Offering Circular.

"Operating Costs" means, collectively, Stipulated O&M Costs and Energy Transaction Costs.

"Operating Revenues" means, collectively, (a) all payments received by the Project Companies under the Project Documents (excluding Loss Proceeds required to be deposited in the Loss Proceeds Account), (b) income derived from the sale, resale or other use of Energy Products and Services by, or on behalf of, the Project Companies, (c) proceeds of business interruption insurance or similar insurance, and (d) earnings on Permitted Investments, in each case as determined in conformity with cash accounting principles and subject to netting requirements (if any) contained in the Project Documents; provided, that "Operating Revenues" shall not include Excluded Revenues.

"Operative Documents" means the Financing Documents and the Project Documents.

"Optional Redemption" has the meaning given in the Indenture.

"Other Energy-Related Products and Services" means ancillary services, emissions credits, conversion services and other related products and services.

"Other Undertakings" has the meaning given in Section 2 of the Contingent Guaranty Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under Title IV of ERISA.

"Peaker Buyout" means either (a) the sale, transfer or other disposition by a Project Company or all or substantially all of its assets or (b) the sale, transfer or other disposition by NRG Energy of 100% of its direct or indirect interests in any Project Company.

"Peaker Buyout Proceeds" means all proceeds received by NRG Energy or any of its Affiliates in connection with a Peaker Buyout.

"Peaker Buyout Profits" means, in connection with a Peaker Buyout, (i) Peaker Buyout Proceeds associated therewith, minus (ii) the aggregate amount of payments required to be made by the Issuer and the Project Companies under the Financing Documents in connection with such Peaker Buyout (including such payments as are set out in the definition of Permitted Peaker Buyout (Completion / Loss Event) and clause (i) of the definition of Permitted Peaker Buyout (Peaker Sale / Project Event of Default) but excluding such payments as are set out in clause (ii) of the definition of Permitted Peaker Buyout (Peaker Sale / Project Event of Default)).

"Peaker Collateralization" means, with respect to a Project Company, the deposit into the Peaker Collateralization Account of an amount in cash or an Acceptable Letter of Credit equal to at least the Allocation Percentage Buyout Amount, using Loss Proceeds and/or other funds not comprising the Collateral.

"Peaker Collateralization Account" has the meaning given in Section 2.1 of Depositary Agreement.

"Performance Liquidated Damages" means all amounts paid under a Project Document as liquidated damages for failure of a Project to meet the performance or other guarantees (excluding schedule guarantees) specified in such Project Document, including amounts paid under guaranties, letters of credit and other support instruments for such purposes.

"Performance Shortfall" has the meaning given in Appendix I to the Contingent Guaranty Agreement.

"Performance Shortfall Payment" has the meaning given in Section 2.1 of the Contingent Guaranty Agreement.

"Permit" means any applicable permit, authorization, registration, notice to and declaration of or with, consent, approval, waiver, exception, variance, order, judgment, decree, license, exemption or filing, required by or from any Governmental Authority, or required by any Legal Requirement, and shall include any environmental or operating permit or license that is required for the full use, occupancy, zoning and operation of a Project.

"Permit Schedule" has the meaning given in Section 3.1(bb) (i) of the Insurance and Reimbursement Agreement.

"Permitted Change of Control" means a sale, transfer or other disposition of no more than 50% of NRG Energy's direct or indirect interests in the Issuer or any Project Company in respect of which the Permitted Change of Control Conditions have been satisfied.

"Permitted Change of Control Conditions" means, in respect of any sale, transfer or other disposition of no more than 50% of NRG Energy's direct or indirect interests in the Issuer or any Project Company, that after giving effect to such sale, transfer or other disposition, (i) each Project, and all other Collateral, remains part of the Collateral, (ii) NRG Energy shall directly or indirectly control (or control equally and jointly with another Person) the fundamental management decisions of the Project Companies (it being acknowledged that the possession by a Person other than NRG Energy of a veto power over material events with respect to such Project Company (e.g., dissolution of such Project Company, merger or consolidation of such Project Company, sale of all or substantially all assets of such Project Company, material amendments to such Project Company's organizational documents) shall not in and of itself constitute a failure by NRG Energy to directly or indirectly control the fundamental management decisions of such Project Company), (iii) each Project Company remains obligated under its Guaranty, and (iv) either (x) NRG Energy shall remain obligated to XLCA under the Contingent

Guaranty Agreement and any other Financing Document to which it is a party, or (y) the buyer (A) has assumed Associated Support Obligations with respect to the transferred ownership interests by executing an assignment and assumption agreement in form and substance reasonably satisfactory to XLCA (if XLCA is the Controlling Party), (B) if XLCA is the Controlling Party, has provided opinions of counsel (which may be in-house counsel) to XLCA in respect of customary matters (i.e., formation, requisite authority, due authorization, execution and delivery, enforceability, the absence of conflicts, consents and litigation) relating to it and such assignment and assumption, and (C) such buyer is either (x) rated at least A3 by Moody's and A- by S&P, or (y) is rated at least Baa2 by Moody's and BBB by S&P and has provided cash, Acceptable Letters of Credit or other credit support acceptable to the Controlling Party (acting in its sole discretion) with respect to that portion of the NRG Guaranteed Obligations under Section 2.3 of the Contingent Guaranty Agreement assumed by the buyer.

"Permitted Encumbrances" means, with respect to a Project, those liens, encumbrances or other exceptions to title specified on a Title Policy delivered pursuant to Section 3.1(dd) of the Insurance and Reimbursement Agreement (it being understood that the exceptions to title appearing on said Title Policy shall be reasonably acceptable to XLCA).

"Permitted Investments" means any of the following:

(a) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having a maturity not exceeding one year from the date of issuance;

(b) time deposits and certificates of deposit of any domestic commercial bank rated at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody's having capital and surplus in excess of \$250,000,000;

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(c) fully secured repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (a) above entered into with any bank meeting the qualifications established in clause (b) above;

(d) commercial paper of any corporation rated at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody's and in each case, having a maturity not exceeding 90 days from the date of acquisition;

(e) commercial paper of any domestic corporation rated at least A-2 or the equivalent thereof by S&P or at least P-2 or the equivalent thereof by Moody's and, in each case having a maturity not exceeding 90 days from the date of acquisition (provided that the aggregate amount of any such commercial paper of any single issuer thereof shall not exceed \$3,000,000);

(f) fully secured repurchase obligations with a term of not more than 7 days for underlying securities of the types described in clause (a) above entered into with any bank meeting the qualifications established in clause (b) above; and

(g) money market mutual funds.

provided, however, that Permitted Investments shall not include any commercial paper, notes, bonds or other securities of any kind of NRG Energy or any Affiliate of NRG Energy.

"Permitted Liens" means Issuer Permitted Liens and Project

Company Permitted Liens.

"Permitted Peaker Buyout" means a Permitted Peaker Buyout (Completion / Loss Event) or a Permitted Peaker Buyout (Peaker Sale / Project Event of Default), as applicable.

"Permitted Peaker Buyout (Completion / Loss Event)" means a Peaker Buyout for which the following conditions are satisfied:

(i) such Peaker Buyout is effected to cure an Issuer Event of Default under Section 7.1(n) or 7.1(o) of the Common Agreement; and

(ii) the Issuer redeems Series A Bonds in accordance with Article 12 of the Indenture in a principal amount equal to at least the Allocation Percentage Buyout Amount for such Project Company and pays all Swap Breakage Costs associated with such redemption, using Peaker Buyout Proceeds from such Peaker Buyout (if any) and/or other funds not comprising the Collateral.

"Permitted Peaker Buyout (Peaker Sale / Project Event of Default)" means a Peaker Buyout for which the following conditions are satisfied:

(i) (A) if the Allocation Percentage for the applicable Project Company is greater than the Experience Amount Percentage for such Project Company, the Issuer redeems Series A Bonds in accordance with Article 12 of the Indenture in a principal amount equal to at least the Allocation Percentage Buyout Amount, and pays the

Redemption Premium and all Swap Breakage Costs associated with such redemption, using Peaker Buyout Proceeds from such Peaker Buyout (if any) and/or other funds not comprising the Collateral, or (B) if the Experience Amount Percentage for such Project Company is greater than the Allocation Percentage for such Project Company, one of the following three conditions (as selected by the Issuer) is satisfied: (1) the Issuer redeems Series A Bonds in accordance with Article 12 of the Indenture in a principal amount equal to the Experience Amount Percentage for such Project Company multiplied by the aggregate principal amount of Series A Bonds then Outstanding (as defined in the Indenture), and pays the Redemption Premium and all Swap Breakage Costs associated with such redemption, using Peaker Buyout Proceeds from such Peaker Buyout (if any) and/or other funds not comprising the Collateral; (2) the Issuer redeems Series A Bonds in accordance with Article 12 of the Indenture in a principal amount equal to at least the Allocation Percentage Buyout Amount, and pays the Redemption Premium and all Swap Breakage Costs associated with such redemption, using Peaker Buyout Proceeds from such Peaker Buyout (if any) and/or other funds not comprising Collateral and, prior to the consummation of such Peaker Buyout, Moody's or S&P confirms in writing that such Peaker Buyout will not result in the Shadow Ratings of (w) the Series A Bonds being lower than Ba2 (if rated by Moody's) or BB (if rated by S&P), (x) the Senior Tranche being lower than A1 (if rated by Moody's) or A (if rated by S&P), (y) the Mezzanine Tranche being lower than Ba1 (if rated by Moody's) or BBB- (if rated by S&P), and (z) the Subordinated Tranche being lower than B2 (if rated by Moody's) or BB (if rated by S&P); or (3) the Issuer redeems Series A Bonds in accordance with Article 12 of the Indenture in a principal amount equal to at least the Allocation Percentage Buyout Amount, and pays the Redemption Premium and all Swap Breakage Costs associated with such redemption, using Peaker Buyout Proceeds from such Peaker Buyout (if any) and/or other funds not comprising Collateral and the Loan Life Coverage Ratio (calculated using current market projections from the Power and Fuel Market Consultant), after giving effect to such Peaker Buyout, is at least

1.50 to 1.00;

(ii) if on the date of the consummation of such Peaker Buyout, the amount of Available Collateralized Experience Funds is less than the Collateralized Experience Amount as of the immediately preceding Annual Scheduled Payment Date (or as of the Closing Date if the first Annual Scheduled Payment Date has not occurred), an amount of funds equal to the lesser of (x) the amount of such deficiency in the Collateralized Experience Account and (y) the amount of Peaker Buyout Profits received in connection with such Peaker Buyout is deposited into the Collateralized Experience Account;

(iii) after giving effect to such Peaker Buyout, (A) the number of Projects comprising the Collateral is at least three and (B) at least one remaining Project comprising the Collateral is located in each of the MAIN Market Region and the SERC Market Region;

(iv) no Issuer Event of Default has occurred and is continuing (other than an Issuer Event of Default relating solely to the Project or Project Company involved in such Peaker Buyout which is cured or eliminated by such Peaker Buyout); and

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(v) if XLCA is the Controlling Party and such Peaker Buyout is with respect to the Rockford I Project, Rockford I Project Company, Rockford II Project or Rockford II Project Company, such agreements for the sharing of facilities for the Rockford I Project and the Rockford II Project as reasonably requested by XLCA are entered into by the Rockford I Project Company and the Rockford II Project Company on or prior to the consummation of such Peaker Buyout.

"Person" means any natural person, corporation, partnership, limited liability company, firm, association, Governmental Authority or any other entity whether acting in an individual, fiduciary or other capacity.

"Pledgor" means any Person pledging its interests (a) in a Project Company or in the Rockford II Equipment Company under a Project Company Pledge Agreement, or (b) in the Issuer under the Issuer Pledge Agreement (collectively the "Pledgors").

"Policies" means the Policy and the Swap Policy.

"Policy" means the Financial Guaranty Insurance Policy, including any endorsements thereto, issued by XLCA with respect to the Series A Bonds, dated as of the Closing Date, substantially in the form of Appendix I to the Insurance and Reimbursement Agreement.

"Policy Payment" has the meaning given in Section 4.1(a) of the Insurance and Reimbursement Agreement.

"Policy Termination Date" means the Termination Date as defined in the Policy.

"Power" means electric capacity, electric energy and/or ancillary services.

"Power and Fuel Market Consultant" has the meaning given in Section 10.1(c) of the Common Agreement.

"Power Sales and Agency Agreement" means, individually or collectively, as the context requires, (i) the Bayou Cove PSA Agreement, (ii) the Big Cajun PSA Agreement, (iii) the Rockford I PSA Agreement, (iv) the Rockford II PSA Agreement and (v) the Sterlington PSA Agreement.

"Preference Claim" has the meaning given in Section 7.4(c) of

the Common Agreement.

"Preliminary Offering Circular" means the first preliminary offering circular, dated May 24, 2002, and the second preliminary offering circular, dated June 13, 2002, each in respect of the Series A Bonds.

"Premium" means the insurance premium (including any additional premium) payable in respect of the Policy by the Issuer in accordance with the Premium Letter and the Insurance and Reimbursement Agreement.

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"Premium Letter" means the side letter, dated as of the Closing Date, among XLCA, the Issuer and the Project Companies entered into in consideration of the issuance of the Policies.

"Premiums" means the Policy Premium and the Swap Policy Premium.

"Pricing Date" means the date of the Purchase Agreement.

"Project Companies" means, collectively, the Bayou Cove Project Company, the Big Cajun Project Company, the Rockford I Project Company, the Rockford II Project Company, and the Sterlington Project Company (each, individually, a "Project Company"); provided that upon the occurrence of a Project Release Event with respect to a Project Company, such Project Company will no longer be a "Project Company" under the Financing Documents.

"Project Company Blocked Amount" means, in respect of a Project Company and in connection with a proposed Restricted Payment pursuant to Section 4.5 of the Common Agreement, an amount in Dollars equal to the Account Funds that would have been available for the making of a Restricted Payment pursuant to Section 4.5(a) of the Common Agreement had no Project Event of Default or Project Inchoate Default occurred and be continuing multiplied by such Project Company's Allocation Percentage.

"Project Company Collateral" means, with respect to a Project Company or the Rockford II Equipment Company, all real, personal and mixed property which is subject or is intended to become subject to the security interests or Liens granted pursuant to the Project Company Collateral Documents for such Project Company or the Rockford II Equipment Company; provided that "Project Company Collateral" shall not include any Released Assets (as defined in each Project Company Collateral Document).

"Project Company Collateral Documents" means, collectively, the Mortgages, the Depositary Agreement, the Project Company Security Agreements, the Project Company Pledge Agreements, any other agreement or instrument granting a Lien on the real, personal and/or mixed property of a Project Company or the Rockford II Equipment Company in favor of the Collateral Agent for the benefit of the Secured Parties, and any subordination agreements, financing statements, notices and the like filed, recorded or delivered in connection with the foregoing.

"Project Company Permitted Debt" means, with respect to a Project Company, (a) Debt under the Operative Documents to which such Project Company is a party (including guarantees of the Additional Bonds), (b) trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable or accrued expenses incurred are (i) payable within 90 days of the date the respective goods are delivered or the respective services are rendered or (ii) being contested in good faith by appropriate proceedings and adequate reserves with respect thereto shall, to the extent required by GAAP, have been set aside, (c) purchase money obligations and Capital Lease Obligations incurred to finance discrete items of equipment not comprising an integral part of its Project that extend only to the equipment being financed in an aggregate not

exceeding \$5,000,000 at any one time outstanding for such Project Company, (d) obligations in respect of

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surety bonds or similar instruments in an aggregate amount not exceeding \$5,000,000 at any one time outstanding for such Project Company, (e) unsecured Debt which is subordinated to the Obligations in accordance with the terms set forth in Exhibit H to the Common Agreement, and (f) guaranties of Issuer Permitted Debt and Project Company Permitted Debt.

"Project Company Permitted Liens" means, in respect of a Project Company or the Rockford II Equipment Company, (a) the rights and interests of the Secured Parties as provided in the Financing Documents; (b) Liens for any tax, assessment or other governmental charge either not yet due or being contested in good faith and by appropriate proceedings, so long as (i) such proceedings shall not involve any substantial danger of the sale, forfeiture or substantial loss of its Project, the related Site or any related Easements, title thereto or any material interest therein and shall not interfere in any material respect with the use or disposition of such Project, Site or Easements, or (ii) a bond or other security (including funds that have been withheld or reserved) reasonably acceptable to the Collateral Agent has been posted or provided in such manner and amount as to reasonably assure the Collateral Agent that any taxes, assessments or other charges determined to be due will be promptly paid in full when such contest is determined; (c) materialmen's, mechanics', workers', repairmen, employees' or other like Liens, junior in right of payment to the Lien of the Project Company Collateral Documents or for which the Secured Parties are otherwise indemnified, arising in the ordinary course of business or in connection with the construction of the Project, either for amounts not yet due or for amounts being contested in good faith and by appropriate proceedings, so long as (i) such proceedings shall not involve any substantial danger of the sale, forfeiture or substantial loss of such Project, the related Site or any related Easements, title thereto or any material interest therein and shall not interfere in any material respect with the use or disposition of such Project, Site or Easements, or (ii) a bond or other security reasonably acceptable to the Collateral Agent has been posted or provided in such manner and amount as to reasonably assure the Collateral Agent that any amounts determined to be due will be promptly paid in full when such contest is determined; (d) Liens arising out of judgments or awards so long as an appeal or proceeding for review is being prosecuted in good faith and for the payment of which adequate reserves, bonds or other security reasonably acceptable to the Collateral Agent have been provided or the payment of which is fully covered by insurance reasonably acceptable to the Collateral Agent; (e) Permitted Encumbrances; (f) Liens, deposits or pledges to secure statutory obligations or performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, or for purposes of like general nature in the ordinary course of its business, not to exceed \$5,000,000 in the aggregate at any time for such Project Company, and with any such Lien to be released as promptly as practicable; (g) other Liens incident to the ordinary course of business that are not incurred in connection with the obtaining of any loan, advance or credit and that do not in the aggregate materially impair the use of the property or assets of Project Company or the value of such property or assets for the purposes of such business; (h) Liens securing Project Company Permitted Debt described to in paragraph (c) of the definition thereof; (i) Liens securing the Project Company Permitted Debt described in paragraph (f) of the definition thereof to the extent the applicable Issuer Permitted Debt or Project Company Permitted Debt is permitted to be secured; (j) Liens contemplated in Section 5.10 (a)(ii) of the Common Agreement; and (k) Liens disclosed on Schedule 3.1 of the Insurance and Reimbursement Agreement.

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"Project Company Pledge Agreements" means the Project Company Pledge Agreements, dated as of the Closing Date, among the applicable Pledgor, the applicable Project Company and, as applicable, the Rockford II Equipment Company, and the Collateral Agent.

"Project Company Security Agreements" means (a) the Project Company Security Agreements, dated as of the Closing Date, between the applicable Project Company and the Collateral Agent, and (b) the Rockford II Equipment Security Agreement, dated as of the Closing Date, between Rockford II Equipment Company and the Collateral Agent.

"Project Completion" means:

(a) with respect to the Bayou Cove Project, the occurrence of each of (i) the Acceptance of the Facilities (as defined in the Bayou Cove EPC Agreement (Balance of Plant)), (ii) the final acceptance and commissioning of the Project (as defined in) Bayou Cove EPC Agreement (Electric Interconnection Facilities)), (iii) the construction, installation, testing, commissioning and completion of the Bayou Cove Electric Interconnection Facilities and the Interconnecting Facilities (as defined in the Bayou Cove Gas Interconnection Agreement), to the extent not covered in the Bayou Cove EPC Agreement (Balance of Plant), (iv) the construction, installation, testing, commissioning and completion of the water well required to supply the Bayou Cove Project with water, and (v) the completion of any other work relating to the engineering, procurement, construction, installation, testing, and commissioning of the Bayou Cove Project, inclusive of all gas and electric interconnection points and water supply and wastewater discharge arrangements, such that the Bayou Cove Project is capable of (A) receiving all Natural Gas required to operate in accordance with the Bayou Cove Project Documents, and (B) delivering electricity to the point of interconnection designated in the Bayou Cove Project Documents, in each case while in compliance with all applicable Legal Requirements, Permits and the Bayou Cove Project Documents; and

(b) with respect to the Rockford II Project, the occurrence of each of (i) Final Acceptance (as defined in the Rockford II Combustion Turbine Equipment Supply Contract), (ii) the delivery of all equipment required to be delivered pursuant to the Rockford II Transformer Purchase Documents, (iii) the delivery of the Notice of Completion (as defined in the Rockford II Construction Contract) by the Rockford II Project Company, (iv) the termination of the Rockford II Construction Management Services Agreement, (v) the design, construction, installation, testing, commissioning and completion of the Interconnection Facilities (as defined in the Rockford II Electric Interconnection Agreement), (vi) the delivery of the Mechanical Acceptance notice (as defined in the Rockford II Gas Interconnection Agreement) by the Rockford II Project Company, and (vii) the completion of any other work relating to the engineering, procurement, construction, installation, testing, and commissioning of the Rockford II Project, inclusive of all gas and electric interconnection points and water supply and wastewater discharge arrangements, such that the Rockford II Project is capable of (A) receiving all Natural Gas required to operate in accordance with the Rockford II Project Documents, and (B) delivering electricity to the point of interconnection designated in the Rockford II Project Documents, in each case while in compliance with all applicable Legal Requirements, Permits and the Rockford II Project Documents.

"Project Document Action" has the meaning given in Section 5.11(a) of the Common Agreement.

"Project Documents" means, with respect to a Project, all Major Project Documents for such Project and all other contracts, agreements, instruments and other documents related to the development, design, engineering, construction, use, operation, maintenance, improvement, ownership and/or acquisition of such Project.

"Project Event of Default" has the meaning given in Section 7.2 of the Common Agreement.

"Project Inchoate Default" means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time or giving of notice, would constitute a Project Event of Default.

"Project Loan Agreements" means, collectively, (a) the Project Loan Agreement, dated as of the Closing Date, between the Issuer and the Bayou Cove Project Company, (b) the Project Loan Agreement, dated as of the Closing Date, between the Issuer and the Rockford I Project Company, and (c) the Project Loan Agreement, dated as of the Closing Date, between the Issuer and the Rockford II Project Company.

"Project Loan Amount" means (a) in respect of the Bayou Cove Project Company, \$107,353,000, (b) in respect of the Rockford I Project Company, \$111,867,000, and (c) in respect of the Rockford II Project Company \$105,780,000.

"Project Loan Notes" means, collectively, (a) the promissory note issued by the Bayou Cove Project Company to the Issuer on the Closing Date pursuant to the Project Loan Agreement to which the Bayou Cove Project Company is a party, (b) the promissory note issued by the Rockford I Project Company to the Issuer on the Closing Date pursuant to the Project Loan Agreement to which the Rockford I Project Company is a party, and (c) the promissory note issued by the Rockford II Project Company to the Issuer on the Closing Date pursuant to the Project Loan Agreement to which the Rockford II Project Company is a party.

"Project Material Adverse Effect" means, with respect to an individual Project and the related Project Company:

(a) a material adverse change in the business, property, results of operations or financial condition of such Project or Project Company;

(b) any event or occurrence of whatever nature which could reasonably be expected to materially and adversely effect (i) the ability of such Project Company to perform its obligations under any of the Financing Documents, or (ii) the validity or enforceability of the Financing Documents and the Major Project Documents to which such Project Company is a party or by which it or any of its assets is bound (taken as a whole); or

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(c) any event or occurrence of whatever nature which could reasonably be expected to materially and adversely effect the validity and priority of Secured Parties' security interests in the Project Company Collateral related to such Project;

provided that (i) any adverse change in the Natural Gas supply market or the Power market after the Closing Date which could cause a change in the conditions or market forecasts contained in the reports delivered on the Closing Date by the Power and Fuel Market Consultant with respect to such Project shall not be deemed to, in and of itself, have a "Project Material Adverse Effect", and (ii) a downgrade in any rating assigned to such Project Company, any Affiliate thereof, the Obligations or the Transaction or any Tranche shall not be deemed to, in and of itself, be a "Project Material Adverse Effect."

"Project Release Event" means, with respect to a Project Company, the earlier to occur of (a) the indefeasible payment or satisfaction in full in cash of all the Obligations and (b) the occurrence of a Permitted Peaker Buyout with respect to such Project Company and/or its Project. A Project Release Event with respect to the Rockford II Project Company shall be deemed also to be a Project Release Event with respect to the Rockford II Equipment Company.

"Project Revenues" means, collectively, (a) income and receipts of the Project Companies derived from the ownership or operation of the Projects and other payments received by the Project Companies under the Project Documents (including Loss Proceeds), (b) proceeds of any business interruption insurance or other insurance, (c) income derived from the sale, resale or other use of Energy Products and Services by, or on behalf of, the Project Companies, (d) unscheduled payments received by the Issuer under the Swap Agreement, (e) receipts derived from the sale of any property pertaining to the Projects or incidental to the operation of the Projects, (f) earnings on Permitted Investments, and (g) proceeds from the Collateral Documents with respect to the Projects, in each case as determined in conformity with cash accounting principles and subject to netting requirements (if any) contained in the Project Documents; provided, that "Project Revenues" shall not include Excluded Revenues.

"Projects" means, collectively, the Bayou Cove Project, the Big Cajun I Units 3&4 Project, the Rockford I Project, the Rockford II Project and the Sterlington Project (each, individually, a "Project"); provided that upon the occurrence of a Project Release Event with respect to a Project, such Project will no longer be a "Project" under the Financing Documents.

"Prudent Utility Practices" means those practices, methods, equipment, specifications and standards of safety and performance, as the same may change from time to time, as are commonly used by electric generation stations owned by independent power producers utilizing comparable fuels in the state where a Project is located, as applicable, of a type and size similar to the applicable Project as good, safe and prudent engineering practices in connection with the design, construction, operation, maintenance, repair and use of electrical and other equipment, facilities and improvements of such electrical station, with commensurate standards of safety, performance, dependability, efficiency and economy. Prudent Utility Practices does not necessarily mean one particular practice, method, equipment specification or standard in all cases, but is instead intended to encompass a broad range of acceptable practices, methods, equipment specifications and standards.

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"PUC" means, with respect to a Project, the Public Utility Commission, Public Service Commission or equivalent Government Authority in the state where such Project is located.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended, and all rules and regulations adopted thereunder.

"Punch List Account" has the meaning given in Section 2.1 of the Depositary Agreement.

"Punch List Items" means, in connection with Completion of the Bayou Cove Project or the Rockford II Project, such punch list items contemplated in the Construction Contracts for such Project.

"Purchase Agreement" means the Purchase Agreement, dated June 14, 2002, among the Issuer, the Project Companies and the Initial Purchaser.

"Rating Agency" means Moody's or S&P or, if Moody's and S&P cease to exist, any nationally recognized statistical rating organization or other comparable Person designated by the Issuer and acceptable to XLCA (if XLCA

is the Controlling Party), notice of which designation shall have been given to the Trustee.

"Redemption Premium" has the meaning given in the Indenture.

"Reimbursement Obligation" means each payment and performance obligation of the Issuer under the Insurance and Reimbursement Agreement (including the Issuer's obligation to pay the Premiums pursuant to Section 3.2 of the Insurance and Reimbursement Agreement and to cash collateralize its reimbursement obligations pursuant to Section 6.2(b) of the Insurance and Reimbursement Agreement).

"Reinstatement Guaranty" means a guaranty from NRG Energy in form and substance reasonably satisfactory to XLCA guaranteeing the Obligations upon reinstatement thereof at any time during the period following the payment or other satisfaction in full of the Obligations until the date which is 366 days after such payment or other satisfaction.

"Release" means any release, pumping, pouring, emptying, injecting, escaping, leaching, dumping, seepage, spill, leak, flow, discharge, disposal or emission of a Hazardous Substance.

"Replacement Swap Agreement" means any replacement swap agreement approved by XLCA (acting in its absolute discretion) that replaces the Swap Agreement and that is with a replacement swap provider that is approved by XLCA (acting in its absolute discretion).

"Reseller" means a power marketing company or any wholesale buyer of electric products.

"Responsible Officer" means, as to any Person, its president, chief executive officer, treasurer or secretary (or assistant secretary), any of its vice presidents, or any managing

general partner or managing member of such Person that is a natural person (or any of the preceding with regard to any managing general partner or managing member of such Person that is not a natural person).

"Restricted Payment" has the meaning given in Section 4.5 of the Common Agreement.

"Restricted Payment Date" means any Initial Restricted Payment Date, any Subsequent Restricted Payment Date or any Subsequent Project Restricted Payment Date, as applicable.

"Revenue Account" has the meaning given in Section 2.1 of the Depositary Agreement.

"Rockford Acquisition Agreement" means the Purchase Agreement among NRG Energy, Indeck Energy Services, Inc., Indeck Energy Services of Ilion, Inc., and Indeck-Ilion Cogeneration Corporation, dated as of May 4, 2001.

"Rockford Assignment and Assumption Agreement" means the General Assignment and Assumption Agreement among NRG Energy, NRG Rockford Acquisition LLC, and NRG Ilion LP LLC, dated as of July 13, 2001.

"Rockford I Electric Interconnection Agreement" means the Interconnection Agreement between ComEd and the Rockford I Project Company, dated as of June 20, 2000.

"Rockford I Gas Interconnection Agreement" means the Interconnection Agreement between the Rockford I Project Company and Northern

Illinois Gas Company, dated as of March 16, 2000.

"Rockford I Ground Lease" means the Ground Lease by and between Rock River Valley Industrial Park, Inc. and the Rockford I Project Company, dated as of January 1, 2000, as amended.

"Rockford I Lease Estoppel" means the estoppel letter dated June 18, 2002 addressed to the Collateral Agent from Rock River Valley Industrial Park, Inc. with respect to the Rockford I Ground Lease.

"Rockford I Lien Subordination Agreement" means that certain lien subordination agreement between the Rockford I Project Company, the Collateral Agent and Rock River Valley Industrial Park, Inc. dated June 18, 2002.

"Rockford I Major Project Documents" means, collectively, (a) the Rockford I Electric Interconnection Agreement, the Rockford I Gas Interconnection Agreement, the Rockford I PSA Agreement, the Rockford I Tolling Agreement and the Rockford I Ground Lease, (b) any Additional Project Document for the Rockford I Project that replaces any of the agreements described in clause (a), (c) any Major Power Purchase Agreement, Major FSA or Major FTA for the Rockford I Project and (d) any Additional Project Document for the Rockford

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I Project that constitutes a material ground lease agreement, material electric interconnection agreement or material sharing agreement.

"Rockford I Non-Disturbance Agreement" means the Subordination, Non-Disturbance, and Attornment Agreement dated June 18, 2002 between Northwest Bank of Rockford and the Collateral Agent.

"Rockford I Project" means the 294 MW (summer capacity) / 310 MW (winter capacity) natural gas-fired electric generation facility owned by the Rockford I Project Company and located in Rockford, Illinois.

"Rockford I Project Company," means NRG Rockford LLC, an Illinois limited liability company formerly known as Indeck-Rockford, L.L.C.

"Rockford I Project Documents" means all Project Documents for the Rockford I Project.

"Rockford I PSA Agreement" means the Power Sales and Agency Agreement between NRG Power Marketing and the Rockford I Project Company, dated as of the Closing Date, including the Fuel and Power Marketing Plan attached thereto.

"Rockford I Tolling Agreement" means the Sales Agreement between Exelon (as assignee of ComEd) and the Rockford I Project Company, dated as of January 7, 2000 and amended as of June 23, 2000.

"Rockford II Combustion Turbine Equipment Supply Contract" means the Contract for Combustion Turbine Equipment Supply (Unit I) between the Rockford II Equipment Company (as assignee of Indeck Equipment Company, L.L.C.) and Siemens Westinghouse Power Corporation, dated as of November 27, 2000, as amended by Change Orders No. 1 through 6.

"Rockford II Completion Obligations" has the meaning given in Section 3.14(b) of the Common Agreement.

"Rockford II Construction Agreement" means the Construction Agreement by and between the Rockford II Project Company and Ragnar Benson, Inc., dated as of August 2, 2001.

"Rockford II Construction Costs" means, collectively, any and all costs, expenses, fees, taxes, or reimbursement obligations incurred by or on behalf of the Rockford II Project Company, under or in connection with a Rockford II Equipment and Construction Contract or otherwise in connection with achieving Project Completion of the Rockford II Project, in each case on or prior to Completion of the Rockford II Project.

"Rockford II Construction Management Services Agreement" means the Construction Management Services Agreement by and between the Rockford II Project Company and Indeck Energy Services, Inc. dated as of September 1, 2001.

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"Rockford II Contractors" means, collectively, each of the contractors and/or services providers providing equipment and/or services to the Rockford II Project pursuant to the terms of any Rockford II Equipment and Construction Contract or any agent or subcontractor thereof.

"Rockford II Electric Interconnection Agreement" means the Interconnection Agreement between ComEd and the Rockford II Project Company, dated as of September 14, 2001.

"Rockford II Engineering Services Agreement" means the Agreement for Engineering Services between the Rockford II Project Company and Raymond Professional Group, dated as of March 14, 2001.

"Rockford II Equipment and Construction Contracts" means, collectively, (i) the Rockford II Combustion Turbine Equipment Supply Contract, (ii) the Rockford II Transformer Purchase Documents, (iii) the Rockford II Engineering Services Agreement, (iv) the Rockford II Construction Agreement, (v) the Rockford II Construction Management Services Agreement, (vi) the Rockford II Electric Interconnection Agreement, (vii) the Rockford II Gas Interconnection Agreement and (viii) any other agreement or document (including any subcontract) entered into with respect to achieving Project Completion for the Rockford II Project.

"Rockford II Equipment Company" means NRG Rockford Equipment II LLC, an Illinois limited liability company formerly known as Indeck-Equipment Company II, L.L.C.

"Rockford II Gas Interconnection Agreement" means the Interconnection Agreement between the Rockford II Project Company and Northern Illinois Gas Company, dated as of April 1, 2002.

"Rockford II Ground Lease" means the Ground Lease by and between Rock River Valley Industrial Park, Inc. and the Rockford II Project Company, dated as of March 20, 2001, as amended.

"Rockford II Lease Estoppel" means the estoppel letter dated June 18, 2002 addressed to the Collateral Agent from Rock River Valley Industrial Park, Inc. with respect to the Rockford II Ground Lease.

"Rockford II Major Project Documents" means, collectively, (a) the Rockford II PSA Agreement, the Rockford II Electric Interconnection Agreement, the Rockford II Gas Interconnection Agreement and the Rockford II Ground Lease, (b) any Additional Project Document for the Rockford II Project that replaces any of the agreements described in clause (a), (c) any Major Power Purchase Agreement, Major FSA or Major FTA for the Rockford II Project and (d) any Additional Project Document for the Rockford II Project that constitutes a material ground lease agreement, material electric interconnection agreement or material sharing agreement.

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"Rockford II Non-Disturbance Agreement" means the Subordination, Non-Disturbance and Attornment Agreement dated June 18, 2002 between Northwest Bank of Rockford and the Collateral Agent.

"Rockford II Project" means the natural gas-fired electric generation facility owned by the Rockford II Project Company currently under construction in Rockford, Illinois on a site adjacent to the Rockford I facility which, upon Completion, is expected to generate 153 MW (summer capacity) / 171 MW (winter capacity).

"Rockford II Project Company" means NRG Rockford II LLC, an Illinois limited liability company formerly known as Indeck-Rockford II, LLC.

"Rockford II Project Documents" means all Project Documents for the Rockford II Project.

"Rockford II PSA Agreement" means the Power Sales and Agency Agreement between NRG Power Marketing and the Rockford II Project, dated as of the Closing Date, including the Fuel and Power Marketing Plan attached thereto.

"Rockford II Transformer Purchase Documents" means the purchase order No 105079 between Waukesha Electric Systems and Indeck-Pleasant Valley, L.L.C. (together with annexes, general conditions and technical requirements), dated as of May 2, 2000, as assigned to the Rockford II Equipment Company.

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., or any successor thereto, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized rating agency designated by the Issuer; provided, that with respect to the rating of the Bonds, the designation shall be with the consent of XLCA (if XLCA is the Controlling Party).

"Scheduled Debt Service" means, collectively, (a) all regularly scheduled payments of principal of and interest on outstanding Series A Bonds and all scheduled payments made by the Issuer to the Swap Counterparty under the Swap Agreement, less (b) all scheduled payments received by the Issuer from the Swap Counterparty under the Swap Agreement.

"Scheduled Payment Date" means each March 10, June 10, September 10 and December 10 (the Annual Scheduled Payment Date) of each year commencing on September 10, 2002 and ending on and including June 10, 2019.

"Secured Parties" means XLCA, the Bondholders, the Swap Counterparty, the Collateral Agent (for the benefit of itself and the Secured Parties) and the Trustee (for the benefit of itself and the Bondholders) (each, a "Secured Party").

"Securities Act" means the Securities Act of 1933, including, unless the context otherwise requires, the rules and regulations thereunder, as amended from time to time.

"Securities Exchange Act" means the Securities Exchange Act of 1934, including, unless the context otherwise requires, the rules and regulations thereunder, as amended from time to time.

"Senior Tranche" means the portion of the Policy initially insuring \$129,684,000 of principal and interest in respect of the Series A Bonds representing the third loss layer of the Policy to be drawn in the event of a Policy Payment.

"SERC Main Market Region" means the region covered by the

Southern Electric Reliability Council.

"Series A Bonds" means the Series A Floating Rate Senior Secured Bonds due 2019 issued by the Issuer on the Closing Date pursuant to the Indenture in an aggregate principal amount of \$325,000,000.

"Shadow Ratings" means any or all, as applicable of the ratings issued by the Rating Agencies for (a) the Series A Bonds (rated Baa3 by Moody's and BBB- by S&P at the Closing Date), (b) the Senior Tranche (rated Aa2 by Moody's and AA- by S&P at the Closing Date), (c) the Mezzanine Tranche (rated Baa2 by Moody's and BBB+ by S&P at the Closing Date), and (d) the Subordinated Tranche (rated Ba3 by Moody's and BBB- by S&P at the Closing Date), in each case without giving effect to the Policies.

"Significant Casualty Event" means, with respect to a Project, any of the following events or conditions: (a) the actual total loss of such Project; (b) a constructive total loss of such Project under applicable insurance policies or an agreed or a compromised total loss of such Project; or (c) such Project shall be either substantially destroyed or irreparably damaged to an extent rendering restoration impracticable or uneconomical.

"Significant Condemnation Event" means any Condemnation Event with respect to a Project that in the reasonable, good faith judgment of the applicable Project Company (as evidenced by an officer's certificate of such Project Company) (a) renders such Project unsuitable for its intended use, (b) is such that restoration of such Project to substantially its condition as existed immediately prior to such Condemnation Event would be impracticable or impossible or (c) constitutes a taking of the applicable Project Company's title to such Project.

"Site" means the "Premises" described in the applicable Mortgage.

"South Central Finance Documents" means the "Finance Documents" as defined in Appendix A to the Trust Indenture, dated as of March 30, 2000, among NRG South Central, Louisiana Generating and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Bond Trustee and Depositary Bank.

"Specified Financial Covenants" means the covenants set forth in Section 7.12 (Consolidated Net Worth), Section 7.13 (Indebtedness to Consolidated Capitalization) and Section 7.14 (Interest Coverage Ratio) of the 364 Day Revolver or any comparable provisions contained in any New Revolving Credit Facility, as applicable, together with, in each case, all related definitions and ancillary provisions.

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"Stated Amount" means with respect to any Acceptable Letter of Credit, the total amount to be drawn thereunder at the time in question in accordance with the terms of such Acceptable Letter of Credit.

"Sterlington and NRG South Central Assignment and Assumption Agreement" means the Assignment and Assumption Agreement between Koch Power, Inc. and NRG South Central, dated as of August 17, 2000.

"Sterlington Electric Interconnection Agreement" means the Interconnection and Operating Agreement between the Sterlington Project Company and Entergy Louisiana, dated as of May 5, 2000.

"Sterlington Gas Interconnection Agreement" means the Interconnect Agreement between Koch Gateway Pipeline Company and the Sterlington Project Company, dated as of May 3, 2000.

"Sterlington Ground Lease" means the Lease Agreement between Koch Nitrogen Company and the Sterlington Project Company, dated as of July 1,

2000.

"Sterlington Lease Estoppel" means the Ground Lessor Estoppel Certificate dated June 18, 2002 executed by Koch Nitrogen Company with respect to the Sterlington Ground Lease.

"Sterlington Major Project Documents" means, collectively, (a) the Sterlington Electric Interconnection Agreement, the Sterlington Utilities and Services Agreement, the Sterlington PSA Agreement, the Sterlington Gas Interconnection Agreement, the Sterlington PPA (when accepted by the FERC and executed by the parties thereto) and the Sterlington Ground Lease, (b) any Additional Project Document for the Sterlington Project that replaces any of the agreements described in clause (a), (c) any Major Power Purchase Agreement, Major FSA or Major FTA for the Sterlington Project and (d) any Additional Project Document for the Sterlington Project that constitutes a material ground lease agreement, material electric interconnection agreement or material sharing agreement.

"Sterlington PPA" means the Power Purchase Agreement among Louisiana Generating, the Sterlington Project Company and NRG South Central, to be executed after the Closing Date upon acceptance thereof by FERC and to be dated as of May 15, 2002.

"Sterlington Project" means the 170 MW (summer capacity) / 193 MW (winter capacity) natural gas-fired electric generation facility owned by the Sterlington Project Company and located in Sterlington, Louisiana.

"Sterlington Project Company" means NRG Sterlington Power LLC, a Delaware limited liability company formerly known as Koch Power Louisiana, L.L.C.

"Sterlington Project Development Agreement" means the Project Development Agreement between NRG Energy and Koch Power, Inc., dated as of April 14, 1999.

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"Sterlington Project Documents" means all Project Documents for the Sterlington Project; provided that the Sterlington PPA shall not be a Project Document for the Sterlington Project until accepted by the FERC and executed by the parties thereto.

"Sterlington PSA Agreement" means the Power Sales and Agency Agreement between NRG Power Marketing and the Sterlington Project Company, dated as of the Closing Date, including the Fuel and Power Marketing Plan attached thereto.

"Sterlington Supplement and Modification to Project Development Agreement" means the Supplement and Modification to Project Development Agreement between NRG Energy and Koch Power, Inc., dated as of May 25, 2000 and the Letter Agreement Re: Supplement and Modification to Project Development Agreement between NRG Energy, and Koch Power, Inc., dated as of August 17, 2000.

"Sterlington Utilities and Services Agreement" means the Utilities and Services Agreement between Koch Nitrogen Company and the Sterlington Project Company, dated as of July 1, 2000.

"Stipulated Fixed O&M Expenses" means, with respect to a Project, the Stipulated Fixed O&M Expenses set forth for such Project in Part I of Exhibit J to the Common Agreement.

"Stipulated Non-Fuel Variable O&M Expenses" means, with respect to a Project, the Stipulated Non-Fuel O&M Expenses set forth for such Project in Part II of Exhibit J to the Common Agreement.

"Stipulated O&M Expenses" means, collectively, Stipulated Fixed O&M Expenses and Stipulated Non-Fuel Variable O&M Expenses.

"Subject Claims" has the meaning given in Section 9.1(b) of the Common Agreement.

"Subordinated Bonds" means Debt for Borrowed Money of the Issuer issued after the Closing Date pursuant to a note in favor of any Person other than a Financing Party or any of its Affiliates, which Debt for Borrowed Money and note are (a) subordinated in all respects to the Obligations in accordance with the terms set forth in Exhibit I to the Common Agreement, (b) not secured other than by a security interest that is subordinated in all respects to the security interest of the Secured Parties in the Collateral and as additionally set forth in Exhibit I to the Common Agreement, (c) not guaranteed other than by a guaranty that is subordinated in all respects to the Guaranties as set forth in Exhibit I to the Common Agreement (and any Lien securing such guaranty is subordinated in all respects to the security interest of the Secured Parties in the Collateral as set forth in Exhibit I to the Common Agreement), and (d) not entitled to the benefit of the Contingent Guaranty Agreement or any other Financing Document.

"Subordinated Debt" means Debt of the Issuer or any Project Company that is subordinated to the Obligations in accordance with the terms set forth in Exhibit H or I to the Common Agreement.

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"Subordinated Tranche" means the portion of the Policy initially insuring \$104,764,000 of principal and interest in respect of the Series A Bonds representing the first loss layer of the Policy to be drawn in the event of a Policy Payment.

"Subsequent Project Restricted Payment Date" has the meaning given in Section 4.5(d) of the Common Agreement.

"Subsequent Project Restricted Payment Period" means, for the purposes of Section 4.5 of the Common Agreement, the period prior to any Project Event of Default and commencing on the occurrence of an Inchoate Project Block Condition and ending on the 30th day following the cure (prior to such Inchoate Project Block Condition maturing into or becoming a Project Event of Default) of such Inchoate Project Block Condition.

"Subsequent Restricted Payment Date" has the meaning given to it in Section 4.5(c) of the Common Agreement.

"Subsequent Restricted Payment Period" means, for the purposes of Section 4.5 of the Common Agreement, the period prior to any Issuer Event of Default and commencing on the occurrence of an Inchoate Block Condition and ending on the 30th day following the cure (prior to such Inchoate Block Condition maturing into or becoming an Issuer Event of Default) of such Inchoate Block Condition.

"Subsequent Tax Payment Period" means, for the purposes of Section 4.5 of the Common Agreement, the period prior to any Issuer Event of Default and commencing on the occurrence of an Issuer Inchoate Default and ending on the 30th day following the cure (prior to such Issuer Inchoate Default maturing into or becoming an Issuer Event of Default) of such Issuer Inchoate Default.

"Subsidiary" means, with respect to any Person, (a) any corporation, association, or other business entity (other than a partnership or a limited liability company) of which 50% or more of the total voting power of shares of capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by

such Person or one or more of the other Subsidiaries of that Person or a combination thereof, and (b) any partnership or limited liability company of which 50% or more of the partnership's or limited liability company's, as the case may be, capital accounts, distribution rights or general or limited partnership interests or limited liability company membership interests, as the case may be, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof.

"Summer Month" means any of May, June, July, August or September.

"Swap Agreement" means the ISDA Master Agreement, dated as of the Closing Date, between the Issuer and the Swap Counterparty, including the Schedule and the Confirmation thereto and any Replacement Swap Agreement.

"Swap Breakage Costs" means any breakage costs and/or termination costs which became due under the Swap Agreement.

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"Swap Counterparty" has the meaning given in the preamble to the Common Agreement, together with any replacement swap provider thereafter approved by XLCA under a Replacement Swap Agreement.

"Swap Obligations" means each payment obligation of the Issuer under the Swap Agreement including in respect of Swap Payment Amounts and Swap Breakage Costs.

"Swap Payment Amount" has the meaning given in the Swap Policy.

"Swap Policy" means the Financial Guaranty Insurance Policy, including any endorsements thereto, issued by XLCA with respect to the Swap Payment Amounts, dated as of the Closing Date, substantially in the form of Appendix II to the Insurance and Reimbursement Agreement.

"Swap Policy Premium" means the insurance premium (including any additional premium) payable in respect of the Swap Policy by the Issuer in accordance with the Premium Letter and the Insurance and Reimbursement Agreement.

"Swap Policy Termination Date" means the Termination Date as defined in the Swap Policy.

"Taxes" means all present or future income, excise, stamp, documentary, property or franchise taxes and other taxes, fees, duties, levies, imposts, deductions, withholdings or other charges of any nature whatsoever (but excluding franchise taxes and taxes imposed on or measured by net income or receipts) imposed by any taxing authority, including, without limitation, any penalties, interest or additions to tax with respect thereto.

"Tax Distributions" has the meaning given in Section 4.5(e) of the Common Agreement.

"Tax Distribution Amount" has the meaning given in Section 4.5(f) of the Common Agreement.

"Tax Group" has the meaning given in Section 4.5(e) of the Common Agreement.

"Title Insurer" means (a) with respect to the Bayou Cove Project, the Big Cajun I Units 3&4 Project and the Sterlington Project, First American Title Insurance Company (or any affiliate thereof), and (b) with respect to the Rockford I Project and the Rockford II Project, Chicago Title Insurance Company (or any affiliate thereof).

"Title Policy" means any title policy delivered by Issuer pursuant to Section 3.1(dd) of the Insurance and Reimbursement Agreement.

"Tolling Period" means:

(A) with respect to any Project, any period during which the applicable Project Company has entered into an Acceptable PPA with a Reseller;

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(B) with respect to the Rockford I Project, the period commencing on the Closing Date and ending on the date on which the Rockford I Tolling Agreement terminates;

(C) with respect to the Sterlington Project, the period commencing on the date after the Closing Date upon which the Sterlington PPA is accepted by the FERC and executed by the parties thereto and ending on the date on which the Sterlington PPA terminates; and

(D) with respect to the Big Cajun Project, the period commencing on the Closing Date and ending on the date on which the Big Cajun PPA terminates;

provided, in each case, (i) if the Reseller is an Affiliate of the Issuer (a) such Reseller (or any Affiliate guaranteeing its obligations) maintains a rating, independent of NRG Energy, of at least Investment Grade from each of S&P and Moody's and (b) such rating is affirmed as "stable" Investment Grade (or the equivalent) or better if NRG Energy is downgraded or placed on credit review or watch by either of S&P or Moody's and (ii) the applicable power purchase agreement, tolling agreement or other contractual arrangement has not been terminated, otherwise ceases to be in full force and effect or the Reseller thereunder has defaulted thereunder, which default has not been cured within the time period provided for such cure under such agreement.

"Total Experience Amount" means the initial Total Experience Amount set forth in Section 2.4 of the Contingent Guaranty Agreement, as reduced or increased from time to time in accordance therewith.

"Tranche" mean the Senior Tranche, the Mezzanine Tranche and/or the Subordinated Tranche, as applicable.

"Transaction" means the portfolio financing transaction in respect of the Projects contemplated by the Financing Documents.

"Trustee" has the meaning given in the preamble to the Common Agreement.

"Uncovered Warranty Costs" means any costs relating to repair work performed during any Warranty Period under either the Bayou Cove EPC Agreement (Balance of Plant) or Bayou Cove EPC Agreement (Electric Interconnection Facilities) which are not paid for or otherwise covered by the relevant Bayou Cove Contractor as the result of any limits on liability under the Bayou Cove EPC Agreement (Balance of Plant) or Bayou Cove EPC Agreement (Electric Interconnection Facilities), as applicable.

"UCC" means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the perfection or priority of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to

such perfection or priority and for purposes of definitions related to such provisions.

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"Warranty Period" means, with respect to the Bayou Cove EPC Agreement (Balance of Plant) and the Bayou Cove EPC Agreement (Electric Interconnection Facilities), the warranty period or periods specified therein, as such periods may be extended pursuant to the terms thereof.

"Winter Month" means any of October, November, December, January, February, March or April.

"XLCA" has the meaning given in the preamble to the Common Agreement.

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RULES OF INTERPRETATION

- A. The singular includes the plural and the plural includes the singular.
- B. "or" is not exclusive.
- C. A reference to a Governmental Rule includes any amendment or modification to such Governmental Rule, and all regulations, rulings and other Governmental Rules promulgated under such Governmental Rule.
- D. A reference to a Person includes its permitted successors and permitted assigns.
- E. Accounting terms have the meanings assigned to them by GAAP, as applied by the accounting entity to which they refer.
- F. The words "include", "includes" and "including" are not limiting.
- G. A reference in a document to an Article, Section, Exhibit, Schedule, Annex or Appendix is to the Article, Section, Exhibit, Schedule, Annex or Appendix of such document unless otherwise indicated. Exhibits, Schedules, Annexes or Appendices to any document shall be deemed incorporated by reference in such document. In the event of any conflict between the provisions of a Financing Document (exclusive of the Exhibits, Schedules, Annexes and Appendices thereto) and any Exhibit, Schedule or Annex thereto, the provisions of such Financing Document shall control. A reference to any Exhibit, Schedule, Annex or Appendix of a Financing Document shall mean such Exhibit, Schedule, Annex or Appendix as, amended, modified or supplemented from time to time in accordance with such Financing Document; provided that no Exhibit, Schedule, Annex or Appendix may be amended, modified or supplemented by Issuer except to the extent specifically permitted in such Financing Document.
- H. References to any document, instrument or agreement (i) shall include all exhibits, schedules and other attachments thereto, (ii) shall include all documents, instruments or agreements issued or executed in replacement thereof, and (iii) shall mean such document, instrument or agreement, or replacement or predecessor thereto, as amended, amended and restated, supplemented or otherwise modified from time to time and in effect at any given time.
- I. The words "hereof", "herein" and "hereunder" and words of similar import when used in any document shall refer to such document as a

whole and not to any particular provision of such document.

- J. The word "will" shall be construed to have the same meaning and effect as the word "shall".
- K. The use in this Agreement of the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

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- L. Any consent, approval, satisfaction or similar acquiescence to be granted under any provision of any Operative Document shall not be unreasonably withheld or delayed unless otherwise provided therein.
- M. References to "days" shall mean calendar days, unless the term "Business Days" shall be used. References to "years" shall mean calendar years, unless otherwise specified. References to a time of day shall mean such time in New York, unless otherwise specified.
- N. The Financing Documents are the result of negotiations between, and have been reviewed by the Financing Parties, NRG Energy, XLCA, the Swap Counterparty, the Trustee, the Collateral Agent, the Depositary Agent and their respective counsel. Accordingly, the Financing Documents shall be deemed to be the product of all parties thereto, and no ambiguity shall be construed in favor of or against any Financing Party, any Equity Party, XLCA, the Swap Counterparty, the Trustee, the Collateral Agent or the Depositary Agent solely as a result of any such Person having drafted or proposed the ambiguous provision.

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CONTINGENT GUARANTY AGREEMENT

BY

NRG ENERGY, INC.

IN FAVOR OF

THE BANK OF NEW YORK
(Collateral Agent)

DATED AS OF JUNE 18, 2002

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CONTINGENT GUARANTY AGREEMENT

This CONTINGENT GUARANTY AGREEMENT dated as of June 18, 2002 (this "Agreement"), is made by NRG ENERGY, INC. ("NRG Energy") in favor of THE BANK OF NEW YORK, as collateral agent on behalf of the Secured Parties referred to herein (the "Collateral Agent"). Capitalized terms used herein and not otherwise defined shall be defined as provided in Section 1 hereof.

PRELIMINARY STATEMENTS

A. NRG Energy (a) indirectly owns 100% of the membership interests in NRG Peaker Finance Company LLC (the "Issuer") and (b) indirectly owns 100% of the membership interests in each of the Project Companies (as defined in the Common Agreement referred to below).

B. Reference is made to that certain Common Agreement dated as of the date hereof (the "Common Agreement") among the Issuer, the Project Companies, XL Capital Assurance Inc. ("XLCA"), the Swap Counterparty, the Trustee and the Collateral Agent.

C. Pursuant to that certain Indenture, dated as of the date hereof, the Issuer intends to issue \$325 million of Series A Floating Rate Senior Secured Bonds due 2019 (the "Series A Bonds"). The full and timely payment of regularly scheduled payments of principal and interest on the Series A Bonds will be unconditionally and irrevocably guaranteed by XLCA pursuant to that certain Financial Guaranty Insurance Policy dated as of the date hereof (including the endorsement thereto, the "Policy") between XLCA and the Trustee.

D. Reference is made to that certain ISDA Master Agreement, dated as of the date hereof (including the schedule, the credit support annex and the confirmation thereto) (the "Swap Agreement") between the Issuer and Goldman Sachs Mitsui Marine Derivative Products, L.P. (the "Swap Counterparty"). The full and timely payment of regularly scheduled net payments due to the Swap Counterparty under the Swap Agreement will be unconditionally and irrevocably guaranteed by XLCA pursuant to that certain Financial Guaranty Insurance Policy dated as of the date hereof (the "Swap Policy") between XLCA and the Swap Counterparty.

E. Pursuant to the Common Agreement, each of the Project Companies has guaranteed the payment by the Issuer of all of the Issuer's obligations under (a) the Indenture and the Series A Bonds and (b) the Swap Agreement and (c) that certain Financial Guaranty Insurance and Reimbursement Agreement dated as of the date hereof (the "Insurance and Reimbursement Agreement") among XLCA, the Issuer and the Project Companies.

F. It is a condition precedent to the (a) issuance of the Series A Bonds, the Policy and the Swap Policy and (b) the execution of the Swap Agreement by the Swap Counterparty that the parties hereto shall have executed and delivered this Agreement.

G. In consideration of NRG Energy's agreement to perform the NRG Support Obligations (as defined herein) with respect to each of the Project Companies, the Project Companies shall pay certain indebtedness and make other distributions to NRG Energy and have agreed to issue the Guaranties pursuant to Article 6 of the Common Agreement.

AGREEMENT

In consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and as an inducement to the issuance of the Series A Bonds and the Policies and the execution of the Swap Agreement, the parties hereto agree as follows:

SECTION 1
Definitions; RULES OF INTERPRETATION

All capitalized terms used but not defined in this Agreement shall have the meanings attributed to them in Annex A to the Common Agreement. The rules of interpretation set forth in Annex A to the Common Agreement shall apply hereto as though fully set forth herein.

SECTION 2
NRG SUPPORT OBLIGATIONS

NRG Energy hereby agrees that, until the termination of this Agreement as set forth in Section 10, it unconditionally and irrevocably guarantees in favor of the Collateral Agent, for the benefit of the Secured Parties, the prompt and complete payment when due of the Obligations to the extent and under the circumstances, but only to the extent and under the circumstances, described in Sections 2.1, 2.2 and 2.3 (including, without limitation, all amounts which would have become due but for the operation of the automatic stay under Section 362(a) of the Federal Bankruptcy Code, 11 U.S.C. 362(a)). This is a guarantee of payment and not of collection. In addition, NRG Energy hereby agrees that it will undertake, perform and comply with the obligations set forth in Sections 2.5, 2.6, 2.7, 2.8, 2.9 and 2.10. The obligations of NRG Energy referred to in this first sentence of this paragraph are referred to herein as the "NRG Guaranteed Obligations" and the obligations of NRG Energy referred to in the immediately preceding sentence are referred to herein as the "Other Undertakings" and, together with the NRG Guaranteed Obligations, as the "NRG Support Obligations." Notwithstanding anything contained herein or in any other Financing Document, NRG Energy's obligations with respect to the Obligations are limited to the NRG Support Obligations.

Section 2.1 Performance Shortfall Payments. If on any Annual Scheduled Payment Date, there exists (a) a Debt Service Shortfall and (b) a Performance Shortfall, then NRG Energy agrees to pay, or to cause to be paid, in Dollars, in immediately available funds on such Annual Scheduled Payment Date, an amount equal to the lesser of (x) the Performance Shortfall with respect to the immediately preceding Determination Period or (y) the Debt Service Shortfall on such Annual Scheduled Payment Date (such payment, a "Performance Shortfall Payment"). Any amount which is not paid when due pursuant to this Section 2.1 shall bear interest at the Late Payment Rate as in effect from time to time until paid in full. Performance Shortfall Payments (plus any accrued interest thereon) shall be paid to the Collateral Agent and applied on the applicable Annual Scheduled Payment Date in accordance with the Depositary Agreement, provided, however, that any Performance Shortfall Payment received by the Collateral Agent following the Annual Scheduled Payment Date on which such Performance Shortfall Payment was due in accordance with this Section 2.1 shall be immediately paid by the

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Collateral Agent (i) first, to XLCA in respect of the Accrued Insurer Loss Amount (Swap), (ii) second, to XLCA in respect of the Accrued Insurer Loss Amount (Bond), and (iii) third, to the Debt Payment Account.

Section 2.2 Experience Payments.

(a) [INTENTIONALLY OMITTED]

(b) On Annual Scheduled Payment Dates. If on any Annual Scheduled Payment Date a Debt Service Shortfall remains after giving effect to the application of any Performance Shortfall Payment due and payable on such Annual Scheduled Payment Date in accordance with Section 2.1, then NRG Energy agrees to pay, or to cause to be paid, in Dollars, in immediately available funds on such date, an amount equal to the lesser of (x) (i) the Total Experience Amount as of the immediately preceding Determination Date, as determined in accordance with Section 2.4 and as set forth in a certificate delivered by the

Issuer to XLCA pursuant to Section 2.7(b) of the Common Agreement, minus (ii) the amounts applied pursuant to priorities Fifth and Sixth in Section 4.2.3 of the Depositary Agreement on such Annual Scheduled Payment Date and (y) the remaining Debt Service Shortfall on such Annual Scheduled Payment Date (such payment, an "Experience Payment").

(c) Payment in Connection with NRG Event of Default. On any date upon which there exists and is continuing an NRG Event of Default hereunder (other than an NRG Event of Default pursuant to Section 13.1(a) hereof), NRG Energy may, in order to cure the Issuer Event of Default resulting therefrom as contemplated by Section 7.1(m) (iii) of the Common Agreement, at its sole option, pay, or to cause to be paid in Dollars, in immediately available funds on such date, an amount equal to (x) the Total Experience Amount as of the immediately preceding Determination Date as determined in accordance with Section 2.4 and as set forth in a certificate delivered by the Issuer to XLCA pursuant to Section 2.7(b) of the Common Agreement minus (y) the aggregate of all Available Collateralized Experience Funds as of such date (such payment, an "Experience Cash Collateral Deposit"). Experience Cash Collateral Deposits shall be paid by NRG Energy to the Collateral Agent, for immediate deposit into a segregated cash collateral account maintained by the Collateral Agent for the benefit of the Secured Parties as further described in Section 7.6. If at any time thereafter, NRG Energy is required to make a payment pursuant to clauses (b) or (d) of this Section 2.2, the Collateral Agent shall first apply Experience Cash Collateral Deposits toward such payment in accordance with priority Sixth in Section 4.2.3 of the Depositary Agreement. In order for such Experience Cash Collateral Deposit to continue to constitute a cure of any Issuer Event of Default resulting from a continuing NRG Event of Default (other than an NRG Event of Default pursuant to Section 13.1(a) hereof), NRG Energy shall be required to deposit additional funds into the applicable Cash Collateral Account such that the aggregate of all Available Collateralized Experience Funds equals the then current Total Experience Amount. If on any Scheduled Payment Date or LOC Substitution Date, the aggregate of all Available Collateralized Experience Funds exceeds the then current Total Experience Amount, the Collateral Agent shall direct the Depositary Agent to transfer an amount of immediately available funds in Dollars equal to such excess from

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such Cash Collateral Account to NRG Energy or any Affiliate thereof as directed by NRG Energy.

(d) Payment Upon Early Termination Date. On any date upon which the Controlling Party shall have accelerated the Obligations (or such Obligations shall have automatically become immediately due and payable following a Bankruptcy Event with respect to the Issuer) following the occurrence and continuation of an Issuer Event of Default in accordance with the Section 7.5(b) of the Common Agreement (an "Early Termination Date"), NRG Energy agrees to pay, or to cause to be paid in Dollars, in immediately available funds on such date, an amount equal to the lesser of (x) (i) the Total Experience Amount as of the immediately preceding Determination Date as determined in accordance with Section 2.4 and as set forth in a certificate delivered by the Issuer to XLCA pursuant to Section 2.7(b) of the Common Agreement minus (ii) the aggregate of all Available Collateralized Experience Funds as of such date and (y) the then outstanding Obligations as so accelerated (such payment, an "Experience Termination Payment"). The Collateral Agent shall apply Experience Termination Payments as directed by the Controlling Party.

(e) General Terms. Any amount which is not paid when due pursuant to this Section 2.2 shall bear interest at the Late Payment Rate as in effect from time to time until paid in full. Experience

Payments (plus any accrued interest thereon) shall be paid to the Collateral Agent and applied on the applicable Annual Scheduled Payment Date in accordance with the Depositary Agreement; provided, however, that any Experience Payment received by the Collateral Agent following the Annual Scheduled Payment Date on which such Experience Payment was due in accordance with this Section 2.2 shall be immediately paid by the Collateral Agent (i) first, to XLCA in respect of the Accrued Insurer Loss Amount (Swap), (ii) second, to XLCA in respect of the Accrued Insurer Loss Amount (Bond), and (iii) third, to the Debt Payment Account.

Section 2.3 Deductible Payments.

(a) On Annual Scheduled Payment Dates. If on any Annual Scheduled Payment Date a Debt Service Shortfall remains after giving effect to the application of (a) any Performance Shortfall Payment due and payable on such Annual Scheduled Payment Date in accordance with Section 2.1, (b) the amounts applied pursuant to priorities Fifth and Sixth in Section 4.2.3 of the Depositary Agreement and (c) any Experience Payment due and payable on such Annual Scheduled Payment Date in accordance with Section 2.2, then NRG Energy agrees to pay, or to cause to be paid, in Dollars, in immediately available funds on such Annual Scheduled Payment Date, an amount equal to the lesser of (x) the remaining Debt Service Shortfall and (y) (i) the Deductible Limit minus (ii) the aggregate of (A) all Deductible Payments previously made hereunder, for which NRG Energy has not yet been reimbursed pursuant to Section 4.1.2 of the Depositary Agreement (or otherwise), and (B) the amounts applied pursuant to priorities Eighth and Ninth in Section 4.2.3 of the Depositary Agreement on such Annual Scheduled Payment Date. Deductible Payments made pursuant to this Section 2.3(a) (plus any accrued interest thereon) shall be paid to the Collateral Agent and applied on such applicable Annual Scheduled Payment Date in accordance with the Depositary Agreement; provided, however, that any Deductible Payment received by the Collateral Agent following the Annual Scheduled Payment

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Date on which such Deductible Payment was due under this Section 2.3 shall be immediately paid by the Collateral Agent (i) first, to XLCA in respect of the Accrued Insurer Loss Amount (Swap), (ii) second, to XLCA in respect of the Accrued Insurer Loss Amount (Bond), and (iii) third, to the Debt Payment Account.

(b) Payment in Connection with NRG Event of Default. On any date upon which there exists and is continuing an NRG Event of Default hereunder (other than an NRG Event of Default pursuant to Section 13.1(a) hereof), NRG Energy may, in order to cure the Issuer Event of Default resulting therefrom as contemplated by Section 7.1(m) (iii) of the Common Agreement, at its sole option, pay, or to cause to be paid in Dollars, in immediately available funds on such date, an amount equal to (x) the Deductible Limit, minus (y) the aggregate of all Deductible Payments previously made hereunder, for which NRG Energy has not yet been reimbursed pursuant to Section 4.1.2 of the Depositary Agreement (or otherwise), minus (z) the aggregate of all Available Collateralized Deductible Funds as of such date (such payment, an "Deductible Cash Collateral Deposit"). Deductible Cash Collateral Deposits shall be paid by NRG Energy to the Collateral Agent, for immediate deposit into a segregated cash collateral account maintained by the Collateral Agent for the benefit of the Secured Parties as further described in Section 7.6. If at any time thereafter NRG Energy is required to make a payment pursuant to clauses (a) or (c) of this Section 2.3, the Collateral Agent shall first apply Deductible Cash Collateral Deposits toward such payment in accordance with priority Ninth in Section 4.2.3 of the Depositary Agreement. If on any Scheduled Payment Date or LOC Substitution Date, the aggregate of all Available

Collateralized Deductible Funds exceeds the amount of Deductible Cash Collateral Deposits calculated in accordance with clauses (x), (y) and (z) above as of such date, the Collateral Agent shall direct the Depository Agent to transfer an amount of immediately available funds in Dollars equal to such excess from the applicable Cash Collateral Account to NRG Energy or any Affiliate thereof as directed by NRG Energy.

(c) Payment Upon Early Termination Date. On any Early Termination Date, NRG Energy agrees to pay, or to cause to be paid in Dollars, in immediately available funds on such date, an amount equal to the lesser of (A) (x) the Deductible Limit minus (y) the sum of (i) all Deductible Payments previously made hereunder for which NRG Energy has not yet been reimbursed pursuant to Section 4.1.2 of the Depository Agreement (or otherwise), and (ii) the aggregate of all Available Collateralized Deductible Funds as of such date, and (B) (x) \$32,500,000 (or the then Outstanding (as defined in the Indenture) principal amount of the Series A Bonds, if less) plus (y) all interest on the Series A Bonds accrued through such Early Termination Date and not yet paid (calculated giving effect to the Swap Agreement) (such payment, a "Deductible Termination Payment"). The Collateral Agent shall apply Deductible Termination Payments as directed by the Controlling Party.

(d) General Terms. Any amount which is not paid when due pursuant to this Section 2.3 shall bear interest at the Late Payment Rate as in effect from time to time until paid in full.

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Section 2.4 Calculation of Total Experience Amount. The initial Total Experience Amount shall equal \$33,384,764. The Total Experience Amount will be either increased or decreased on each Determination Date as described in this Section 2.4. The Total Experience Amount shall be increased on such Determination Date by the Experience Accrual Amount for the then-ending Determination Period, if applicable, or decreased on such Determination Date by the Experience Reduction Amount for the then-ending Determination Period, if applicable; provided, however, that upon the consummation of a Permitted Peaker Buyout (Peaker Sale/Project Event of Default) for which the condition set forth in clause (i)(B)(1) of the definition of Permitted Peaker Buyout (Peaker Sale/Project Event of Default) is satisfied or if, in connection with the satisfaction of the conditions set forth in either clause (i)(B)(2) or (i)(B)(3) of the definition of Permitted Peaker Buyout (Peaker Sale/Project Event of Default), the Issuer, at its option, shall have also satisfied the condition set forth in clause (i)(B)(1) of the definition of Permitted Peaker Buyout (Peaker Sale/Project Event of Default), the Total Experience Amount shall be reduced by the Experience Amount Percentage for the applicable Project Company.

Section 2.5 Completion Guaranty. If either the Bayou Cove Project Company or the Rockford II Project Company fails to perform the covenant set forth in Section 3.14 (Completion) of the Common Agreement, NRG Energy shall perform, or cause the performance of, such covenant in respect of the applicable Project.

Section 2.6 O&M Expense Guaranty. NRG Energy agrees to pay, or cause to be paid, in Dollars, to, or for the benefit of, each Project Company an amount which will enable such Project Company to pay all costs when due whether ordinary or extraordinary (other than Energy Transaction Costs) incurred in connection with the operation and maintenance of its Project in accordance with Prudent Utility Practices, all Legal Requirements and the Project Documents for such Project (including, without limitation, labor costs, non-fuel consumables, major maintenance costs, capital expenditures, rent,

property taxes, insurance premiums, shared facilities costs, amounts due and required reserves (including damages) from such Project Company under the Project Documents for such Project, indemnity obligations, fines and penalties to any Governmental Authority, legal expenses and deductibles on liability and casualty policies). For the avoidance of doubt, payments by a Project Company under its Project Loan Agreement and Project Loan Note shall not be costs of the type described in this Section 2.6.

Section 2.7 O&M Services. With respect to each Project Company that is not a party to an effective operation and maintenance agreement at any given time, NRG Energy agrees to provide, or cause an Affiliate to provide, all operation and maintenance services required for such Project Company to operate and maintain its Project in accordance with Prudent Utility Practices, all Legal Requirements and the Project Documents for such Project.

Section 2.8 Power Marketer Support. In the event that (i) NRG Power Marketing engages in any Permitted Netting (as defined in each Power Sales and Agency Agreement) under such Power Sales and Agency Agreement and (ii) an Affiliate of NRG Power Marketing (other than a Project Company) fails to remit to NRG Power Marketing all or any portion of the amount NRG Power Marketing is required to pay the applicable Project Company in full (irrespective of such Permitted Netting) for all Power Revenues (as defined in such Power Sales and Agency Agreement) and revenues from Emissions Credits (as defined in such Power

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Sales and Agency Agreement) due and owing to such Project Company from sales and resales of Power and/or Emissions Credits by NRG Power Marketing on behalf of such Project Company (such failure to remit, an "Affiliate Shortfall"), NRG Energy agrees upon written request of the Collateral Agent to pay, or cause to be paid, to such Project Company an amount in Dollars equal to such Affiliate Shortfall. Notwithstanding the foregoing, NRG Energy shall not be liable under this Section 2.8 for any failure to remit resulting from a default by a third party under its agreement with (a) NRG Power Marketing or (b) any Affiliate of NRG Power Marketing.

Section 2.9 Indemnity Payments Received Under Acquisition Agreements. To the extent that any Acquisition Indemnity Payments are received by any Affiliate of any Project Company under any Acquisition Agreement, NRG Energy shall cause such Affiliate to immediately deposit such proceeds into the Acquisition Indemnity/Performance LD Reserve Account, unless, prior to the receipt of such Acquisition Indemnity Payments, NRG Energy or an Affiliate of NRG Energy has made the relevant Project Company economically whole in all material respects for any loss in the value of such Project Company caused by the event giving rise to such Acquisition Indemnity Payments.

Section 2.10 Big Cajun Permitting Matters. NRG Energy shall take, or cause to be taken, in a timely manner, all commercially reasonable steps necessary to cure and resolve any failure with respect to nitrogen oxide emissions from the Big Cajun I Units 3&4 Project to operate in accordance with applicable Hazardous Substance Laws that may remain uncured or unresolved as of the Closing Date and to implement, or cause to be implemented, within eighteen (18) months of the Closing Date, or, if later, by such date as such implementation may be authorized in writing by a Governmental Authority, any equipment or process modifications as may be required to bring such nitrogen oxide emissions into compliance with all applicable Hazardous Substance Laws. In addition, for so long as the environmental Permits for the Big Cajun I Units 3&4 Project are in the name of Louisiana Generating, NRG Energy shall cause Louisiana Generating to provide all operation and maintenance services required for the Big Cajun Project Company to operate and maintain the Big Cajun I Units 3&4 Project in accordance with Prudent Utility Practices, all Legal Requirements and the Project Documents for such Project.

SECTION 3
REPRESENTATIONS AND WARRANTIES

NRG Energy represents and warrants to the Collateral Agent for the benefit of the Secured Parties, as of the Closing Date, as follows:

Section 3.1 Organization and Qualification. It is a corporation, duly organized and validly existing under the laws of the jurisdiction of its formation, with full right, power and authority under its certificate of incorporation and bylaws and under the laws of the jurisdiction of its formation to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby.

Section 3.2 Authorization and Enforceability. It has taken all necessary corporate action to authorize the execution, delivery and performance by it of this Agreement

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and no consent of any shareholder of NRG Energy is required therefore which has not already been obtained. This Agreement has been duly executed and delivered by NRG Energy and constitutes a legal, valid and binding obligation of NRG Energy enforceable against it in accordance with its terms, except as the enforceability thereof may be limited by (i) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (ii) general equitable principles regardless of whether the issue of enforceability is considered in a proceeding in equity or at law.

Section 3.3 No Conflict; No Default. (a) Neither the execution and delivery of this Agreement nor compliance with any of the terms and provisions hereof (i) violates any Legal Requirement, (ii) violates the provisions of its certificate of incorporation and bylaws, or (iii) results in the creation or imposition of any Liens upon any of its property or assets or in a condition or an event that constitutes (or that, upon notice or lapse of time or both, would constitute) an event of default under any material contractual obligation of NRG Energy.

(b) Neither the execution and delivery of any Operative Document nor the compliance with any of the terms and provisions thereof by any of the Big Cajun Project Company, the Sterlington Project Company, the Bayou Cove Project Company, Louisiana Generating or NRG South Central (i) results in a condition or an event that constitutes (or that, upon notice or lapse of time or both, would constitute) a breach or an event of default under, or would otherwise be in conflict with, the NRG South Central Financing Documents, or (ii) requires the consent of the trustee under, or any of the bondholders pursuant to, the NRG South Central Financing Documents, other than the lien releases and subordination agreements delivered pursuant to the Insurance and Reimbursement Agreement on the Closing Date and other consents that have been obtained.

Section 3.4 No Consent. No consent or authorization of, filing with, or other act by or in respect of any other Person or any Governmental Authority is required in connection with the execution, delivery or performance by NRG Energy of this Agreement or the validity or enforceability hereof as to NRG Energy, except such consents or authorizations which have already been obtained or such consents or authorizations that the failure to obtain could not reasonably be expected to have an NRG Energy Material Adverse Effect (defined as "NRG Energy Material Adverse Effect.")

Section 3.5 Compliance with Law It is in compliance with applicable Legal Requirements, except to the extent any non-compliance could not reasonably be expected to have an NRG Energy Material Adverse Effect.

Section 3.6 Litigation. Except as set forth on Schedule A, there are no actions, suits or proceedings at law or in equity by or before any Governmental Authority now pending or, to its actual knowledge, threatened against it or any of its properties which could reasonably be expected to have

an NRG Energy Material Adverse Effect.

Section 3.7 Financing Documents. In connection with its execution of this Agreement, it has received and reviewed copies of the Operative Documents.

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Section 3.8 Financial Statements In the case of each financial statement and accompanying information delivered by it pursuant to the terms of this Agreement, each such financial statement and information shall have been prepared in conformity with GAAP and fairly present, in all material respects, the financial position (on a consolidated and, where applicable, consolidating basis) of the Persons described in such financial statements as at the respective dates thereof and the results of operations and cash flows (on a consolidated and, where applicable, consolidating basis) of the Persons described therein for each of the periods then ended, subject, in the case of any such unaudited financial statements, to changes resulting from audit and normal year-end adjustments.

Section 3.9 Taxes. It has filed all United States federal tax returns, and all other tax returns, required to be filed and has paid all taxes due pursuant to such returns or pursuant to any assessment received by it, except such taxes, if any, as are being contested in good faith and for which adequate reserves have been provided. No notices of tax liens have been filed and no claims are being asserted concerning any such taxes, which liens or claims are material to the financial condition of NRG Energy. The charges, accruals and reserves on the books of NRG Energy for any taxes or other governmental charges are adequate.

Section 3.10 Regulatory Matters. It 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. NRG Energy is not a "public utility company", an "electric utility company" or a "holding company" within the meaning of PUHCA. The execution, delivery and performance of this Agreement by NRG Energy does not violate any provision of PUHCA or any rule or regulation thereunder. NRG Energy is not subject to regulation as a "public utility," an "electric utility" or a "transmitting utility" under the FPA.

Section 3.11 Solvency Matters

(a) Financial Information. It has established adequate means of obtaining financial and other information pertaining to the businesses, operations and condition (financial and otherwise) of the Issuer and the Project Companies and their respective properties on a continuing basis (including any amendments to any relevant Operative Document), and it now is and hereafter will be completely familiar with the businesses, operations and condition (financial and otherwise) of the Issuer and the Project Companies and their respective properties.

(b) Insolvency.

(i) After giving effect to the transactions contemplated by this Agreement and the contingent obligations evidenced hereby, it is not, on either an unconsolidated basis or a consolidated basis, insolvent as such term is used or defined in any applicable Bankruptcy Law, and it has and will have assets which, fairly valued, exceed its indebtedness, liabilities or obligations.

(ii) It is not executing this Agreement with any intention to hinder, delay or defraud any present or future creditor or creditors of it.

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(iii) It is not engaged in any business or transaction which, after giving effect to the transactions contemplated by this Agreement, will leave it with unreasonably small capital or assets which are unreasonably small in relation to the business or transactions engaged by it, and it does not intend to engage in any such business or transaction.

(iv) It does not intend to incur, nor does it believe that it will incur, debts beyond its ability to repay such debts as they mature.

SECTION 4 COVENANTS

Until this Agreement is terminated in accordance with Section 10 hereof, NRG Energy covenants and agrees with the Collateral Agent, for the benefit of the Secured Parties, as follows:

Section 4.1 Corporate Existence; Business; Asset Sales. NRG Energy shall preserve and maintain (i) its legal existence and form and (ii) all of its rights, privileges and franchises, if any, necessary to perform its obligations under this Agreement, provided, however, that NRG Energy may merge or consolidate with or into, or may sell, convey, transfer or lease its properties and assets substantially as an entirety to any Person so long as (A) NRG Energy is the surviving or continuing corporation, or the surviving or continuing corporation or corporation that acquires by sale, conveyance, transfer or lease is incorporated in the United States of America or Canada and expressly assumes the payment and performance of all obligations of NRG Energy under this Agreement, and (B) immediately prior to and immediately following such consolidation, merger, sale, conveyance, transfer or lease, no NRG Event of Default shall have occurred and be continuing. Except as permitted in the preceding proviso, and other than assets required to be sold to conform with Legal Requirements, NRG Energy shall 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 NRG Energy's 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 and, provided, further, that NRG Energy may sell or otherwise dispose of assets in excess of such 10% limitation if the proceeds from such sales or dispositions, which are not reinvested as provided above, are retained as cash or cash equivalents or applied to reduce or retire Debt of NRG Energy ranking senior to or equal with the NRG Support Obligations. For purposes of this Section 4.1, "Consolidated Net Tangible Assets" shall mean, as of the date of any determination thereof, with respect to NRG Energy, the total amount of all of NRG Energy's assets determined on a consolidated basis in accordance with GAAP as of such date less the sum of (a) NRG Energy's consolidated current liabilities determined in accordance with GAAP and (b) NRG Energy's assets properly classified as intangible assets in accordance with GAAP.

Section 4.2 Compliance with Legal Requirements. NRG Energy shall comply in all material respects with all Legal Requirements binding on it, except where failure to do so could not reasonably be expected to have an NRG Energy Material Adverse Effect.

Section 4.3 Taxes. NRG Energy shall duly pay and discharge all taxes, rates, assessments, fees and governmental charges upon or against it or against its properties, in each case before the same becomes delinquent and before penalties accrue thereon, unless and to the extent that the same is being

contested in good faith by appropriate proceedings and reserves in conformity with GAAP have been provided therefore on the books of NRG Energy.

Section 4.4 Insurance. NRG Energy shall insure, and keep insured with good and responsible insurance companies, all insurable property owned by it of a character usually insured by companies similarly situated and operating like property. To the extent usually insured (subject to self-insured retentions) by companies similarly situated and conducting similar businesses, NRG Energy will also insure employers' and public and product liability risks with good and responsible insurance companies. NRG Energy shall not, however, be required to maintain terrorism insurance for its properties.

Section 4.5 Ranking. NRG Energy shall cause its obligations hereunder to at all times rank at least pari passu with all other senior unsecured obligations of NRG Energy.

Section 4.6 Further Assurances. NRG Energy shall promptly provide XLCA (if XLCA is then the Controlling Party) with such information and other documents that it may reasonably request.

Section 4.7 Financial and Other Information.

(a) NRG Energy shall deliver to the Collateral Agent as soon as available and in any event within 120 days after the end of each fiscal year of NRG Energy, an audited consolidated balance sheet of NRG Energy as of the end of such fiscal year and the related audited statements of income, retained earnings and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, to the extent available, all reported by an independent public accountant of nationally recognized standing; provided that NRG Energy shall be deemed to have satisfied this covenant if it files its annual report on Form 10-K for the applicable fiscal year with the Securities and Exchange Commission within the period set forth in this Section 4.7(a).

(b) NRG Energy shall deliver to the Collateral Agent as soon as available and in any event within 60 days after the end of its first three fiscal quarters, a consolidated balance sheet of NRG Energy as of the end of such fiscal quarter and the related statements of income, retained earnings and cash flows for such fiscal quarter; provided that NRG Energy shall be deemed to have satisfied this covenant if it files its quarterly report on Form 10-Q for the applicable fiscal year with the Securities and Exchange Commission within the period set forth in this Section 4.7(a).

(c) Concurrently with the delivery of each of the financial statements referred to in Sections 4.7(a) and (b), NRG Energy shall deliver to the Collateral Agent an officer's certificate, executed by the chief financial officer, treasurer, assistant chief financial officer or assistant treasurer of NRG Energy, stating that such officer, on behalf of NRG Energy, has reviewed the terms of this Agreement and has made, or caused to be made under its supervision, a review in reasonable detail of the transactions and condition of NRG Energy during the

accounting period covered by such financial statements and that such review has not disclosed the existence during or at the end of such accounting period, and that such officer does not have knowledge of the existence as at the date of such officer's certificate, of any condition or event that constitutes a default hereunder, including without limitation in respect of the Specified Financial Covenants referred to in Section 13.1(e), or, if any such condition or event existed or exists, specifying the nature and period of the existence thereof and what action NRG Energy has taken, is taking and proposes to take with respect thereto.

(d) NRG Energy shall promptly, upon acquiring notice or giving notice, as the case may be, or obtaining knowledge thereof, give written notice (together with copies of any underlying notices or other documentation) to the Collateral Agent and (if XLCA is the Controlling Party) to XLCA (it being acknowledged that XLCA shall have no obligation to provide any such written notice received by it to any other Person) of:

(i) any action, suit, arbitration or litigation pending or threatened against NRG Energy and involving claims against NRG Energy in excess of \$50,000,000, in the aggregate, or involving any injunctive, declaratory or other equitable relief that, if determined adversely NRG Energy, could reasonably be expected to have an NRG Material Adverse Effect, such notice to include, if requested by the Controlling Party, copies of all material papers filed in such litigation involving NRG Energy, and such notice to be given monthly if any such papers have been filed since the last notice given;

(ii) any dispute or disputes which may exist between NRG Energy and any Governmental Authority and which involve (A) claims against NRG Energy which exceed \$50,000,000 in the aggregate or, (B) injunctive or declaratory relief that, if determined adversely to NRG Energy, could reasonably be expected to have an NRG Material Adverse Effect;

(iii) any material amendment, modification or alteration to the NRG Credit Risk Policy (it being understood that any change to Section IV-C (Policies and Procedures - Credit Approval and Limits) or Appendix IV (Counterparty Credit Exposure Calculation) thereof will be deemed to be material); and

(iv) any change in ratings given to NRG Energy by Moody's or S&P, including the placement of NRG Energy on "credit watch negative" or similar status.

Notwithstanding the foregoing, NRG Energy shall not be required to give notice of any matter described in this Section 4.7(d) that is described in any Form 10-K, 10-Q or 8-K or other form or document filed by NRG Energy or any of its Affiliates with the Securities and Exchange Commission and available on the Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.

SECTION 5 OBLIGATIONS ABSOLUTE, ETC.

All rights of the Secured Parties and all obligations of NRG Energy hereunder shall be absolute and unconditional irrespective of:

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(a) any lack of validity, legality or enforceability of this Agreement or any other Financing Document;

(b) the failure of any Secured Party:

(i) to assert any claim or demand or to enforce any right or remedy against the Issuer, NRG Energy, any Project Company or any other Person (including any guarantor) under the provisions of any Financing Document or otherwise, or

(ii) to exercise any right or remedy against any guarantor of, or collateral securing, any of the Obligations;

(c) any change in the time, manner or place of payment of, or in any other term of, any of the Obligations, or any extension or renewal of any of the Obligations;

(d) any reduction, limitation, impairment or termination of any of the Obligations for any reason other than the written agreement of the Secured Parties to terminate the Obligations in full, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to, and NRG Energy hereby waives any right to or claim of, any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any of the Obligations;

(e) any amendment to, rescission, waiver or other modification of, or any consent to departure from, any of the terms of this Agreement or any other Financing Document;

(f) any addition, exchange, release, surrender or non-perfection of any collateral, or any amendment to or waiver, release or addition of, or consent to departure from, any other security interest held by any Secured Party;

(g) the Bankruptcy, dissolution or receivership of the Issuer or any Project Company and the occurrence of any other proceeding as a result of such Bankruptcy, any other disposition of all or any portion of the assets of the Issuer or any Project Company, or the consolidation or merger of the Issuer or any Project Company;

(h) any sale, transfer or other disposition by NRG Energy or any other Person of any capital stock or other voting rights or ownership or direct or indirect economic interest, including debt, that it may have in the Issuer and/or the Project Companies; or

(i) any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Issuer, any Project Company, NRG Energy, any surety or any guarantor.

SECTION 6 WAIVERS

NRG Energy hereby waives and relinquishes all rights and remedies accorded by applicable Legal Requirements to sureties or guarantors and agrees not to assert or take

advantage of any such rights or remedies, including (a) any right to require the Collateral Agent or any other Secured Party to proceed against any the Issuer, any Project Company or any other Person or to proceed against or exhaust any security held by the Collateral Agent or any other Secured Party at any time or to pursue any other remedy in the Collateral Agent's or any other Secured Party's power before proceeding against NRG Energy (except to the extent expressly set forth herein), (b) any defense that may arise by reason of the incapacity, lack of power or authority, death, dissolution, merger, termination or disability of the Issuer, any Project Company or any other Person or the failure of the Collateral Agent or any other Secured Party to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of the Issuer, any Project Company or any other Person, (c) demand, presentment, protest and notice of any kind, including notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of the Issuer, any Project Company, the Collateral Agent, any other Secured Party, any endorser or creditor of the foregoing or on the part of any other Person under this or any other instrument in connection with any obligation or evidence of indebtedness held by the Collateral Agent or any other Secured Party as collateral for or in connection with any of the Obligations, (d) any defense based upon an election of remedies by the

Collateral Agent or any other Secured Party, including an election to proceed by non-judicial rather than judicial foreclosure, which destroys or otherwise impairs the subrogation rights of NRG Energy, the right of NRG Energy to proceed against the Issuer, any Project Company or any other Person for reimbursement, or both, (e) any defense based on any offset against any amounts which may be owed by any Person to NRG Energy for any reason whatsoever, (f) any defense based on any act, failure to act, delay or omission whatsoever on the part of the Issuer or any Project Company or the failure by the Issuer or any Project Company to do any act or thing or to observe or perform any covenant, condition or agreement to be observed or performed by it under the Financing Documents, (g) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal, (h) any defense, setoff or counterclaim which may at any time be available to or asserted by the Issuer or any Project Company against the Collateral Agent, any other Secured Party or any other Person under the Financing Documents, (i) any duty on the part of the Collateral Agent or any other Secured Party to disclose to NRG Energy any facts that the Collateral Agent or any other Secured Party may now or hereafter know about the Issuer or any Project Company, regardless of whether the Collateral Agent or any other Secured Party has reason to believe that any such facts materially increase the risk beyond that which NRG Energy intends to assume, or have reason to believe that such facts are unknown to NRG Energy, or have a reasonable opportunity to communicate such facts to NRG Energy, since NRG Energy acknowledges that NRG Energy is fully responsible for being and keeping informed of the financial condition of the Issuer and the Project Companies and of all circumstances bearing on the risk of non-payment of any obligations and liabilities hereby guaranteed, (j) any defense based on any change in the time, manner or place of any payment under, or in any other term of, the Financing Documents or any other amendment, renewal, extension, acceleration, compromise or waiver of or any consent or departure from the terms of the Financing Documents, (k) any defense arising because of the Collateral Agent's or any other Secured Party's election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code, and (l) any defense based upon any borrowing or grant of a security interest under Section 364 of the Federal Bankruptcy Code.

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SECTION 7 SPECIFIC PROVISIONS

Section 7.1 Reinstatement. This Agreement and the obligations of NRG Energy hereunder shall automatically be reinstated if and to the extent that for any reason any payment made pursuant to this Agreement is rescinded or otherwise restored to NRG Energy, whether as a result of any proceedings in bankruptcy or reorganization or otherwise with respect to Issuer or any other Person or as a result of any settlement or compromise with any Person (including NRG Energy) in respect of such payment, and NRG Energy shall pay the Collateral Agent on demand all of its reasonable costs and expenses (including reasonable fees of counsel) incurred by the Collateral Agent in connection with such rescission or restoration.

Section 7.2 Specific Performance. NRG Energy hereby irrevocably waives, to the extent it may do so under applicable Legal Requirements, any defense based on the adequacy of a remedy at law that may be asserted as a bar to the remedy of specific performance in any action brought against NRG Energy for specific performance of this Agreement by the Issuer or any successor or assign thereof (including the Collateral Agent) or for their benefit by a receiver, custodian or trustee appointed for the Issuer or in respect of all or a substantial part of its assets, under the bankruptcy or insolvency laws of any jurisdiction to which the Issuer or its assets are subject.

Section 7.3 Bankruptcy Code Waiver. NRG Energy hereby irrevocably waives, to the extent it may do so under applicable Legal Requirements, any protection to which it may be entitled under Sections

365(c)(1), 365(c)(2) and 365(e)(2) of the Bankruptcy Law or equivalent provisions of the laws or regulations of any other jurisdiction with respect to any proceedings, or any successor provision of law of similar import, in the event of any Bankruptcy Event of it, the Issuer or any Project Company. Specifically, in the event that the trustee (or similar official) in a Bankruptcy Event of NRG Energy, the Issuer or any Project Company or the debtor-in-possession takes any action, NRG Energy shall not assert any defense, claim or counterclaim denying liability hereunder on the basis that this Agreement is an executory contract or a "financial accommodation" that cannot be assumed, assigned or enforced or on any other theory directly or indirectly based on Section 365(c)(1), 365(c)(2) or 365(e)(2) of the Bankruptcy Law, or equivalent provisions of the laws or regulations of any other jurisdiction with respect to any proceedings or any successor provision of law of similar import. If a Bankruptcy Event of NRG Energy, the Issuer or any Project Company shall occur, NRG Energy agrees, after the occurrence of such Bankruptcy Event, to reconfirm in writing, to the extent permitted by applicable Legal Requirements, its pre-petition waiver of any protection to which it may be entitled under Sections 365(c)(1), 365(c)(2) and 365(e)(2) of the Bankruptcy Law or equivalent provisions of the laws or regulations of any other jurisdiction with respect to proceedings and, to give effect to such waiver, NRG Energy consents to the assumption and enforcement of each provision of this Agreement by the debtor-in-possession or the Issuer's or any Project Company's trustee in bankruptcy, as the case may be.

Section 7.4 No Commencement of Bankruptcy Proceedings. So long as the Financing Documents remain in effect, NRG Energy shall not, without the prior written consent of the Controlling Party, commence, or join with any other Person in commencing, any bankruptcy, reorganization, or insolvency proceeding against the Issuer or any Project Company.

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The obligations of NRG Energy under this Agreement shall not be altered, limited or affected by any proceeding, voluntary or involuntary, involving the bankruptcy, reorganization, insolvency, receivership, liquidation or arrangement of any the Issuer or any Project Company, or by any defense which the Issuer or any Project Company may have by reason of any order, decree or decision of any court or administrative body resulting from any such proceeding.

Section 7.5 Set-Off. In addition to any rights now or hereafter granted under applicable Legal Requirements or otherwise, and not by way of limitation of any such rights, upon the failure of NRG Energy to make any payments as required by Section 2 hereunder, the Collateral Agent is hereby authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to NRG Energy or to any other Person, any such notice being hereby expressly waived, to set-off and to appropriate and apply any and all deposits (general or special) and any other indebtedness at any time held or owing by any Secured Party (including by branches and agencies of each of the Secured Parties wherever located) to or for the credit or the account of NRG Energy, against and on account of the obligations of NRG Energy then due under this Agreement, irrespective of whether or not the Collateral Agent shall have made any demand hereunder.

Section 7.6 Cash Collateral Accounts

(a) All amounts required to be deposited as cash collateral with the Collateral Agent pursuant to Section 2.2(c) and Section 2.3(b) shall be deposited in separate cash collateral accounts (such accounts, and any replacement or supplemental account into which any such cash collateral may at any time be deposited, collectively, the "Cash Collateral Accounts") established by NRG Energy with the Collateral Agent and under the dominion and control of the Collateral Agent, to be held or applied, or released for application, as provided in this Section 7.6. NRG Energy hereby grants to the Collateral Agent, for the benefit of Secured Parties, as security for the payment and performance

of the NRG Guaranteed Obligations, a security interest in and lien on (i) the Cash Collateral Accounts, (ii) all amounts now or at any time on deposit therein, (iii) all investment property or other financial assets from time to time credited thereto, and (iv) all proceeds of any of the foregoing, in whatever form. In connection with the making of the initial deposit in any Cash Collateral Account NRG Energy shall be required to (a) execute such documentation as may be necessary, or that is reasonably requested by the Collateral Agent, in order to grant to the Collateral Agent, for the benefit of the Secured Parties, a first priority perfected security interest in the Cash Collateral Accounts (subject to NRG Permitted Liens), including without limitation an account control agreement containing control provisions substantially similar to those contained in the Depositary Agreement and (b) deliver an opinion of counsel with respect to the Cash Collateral Accounts substantially similar to the opinion given with respect to the Accounts on the Closing Date. Upon the earlier to occur of (i) termination of this Agreement in accordance with Section 10 or (ii) the cure of the NRG Event of Default which triggered the making of a Cash Collateral Deposit, the Collateral Agent shall take, at NRG Energy's expense, such actions as NRG Energy may reasonably request to effect the release of such Cash Collateral Deposit and the security interest and lien granted pursuant to this clause (a), provided, however, that in the case of clause (ii) of this sentence, at the time of such proposed release no other NRG Event of Default shall have occurred and be continuing.

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(b) Interest and other payments and distributions made on or with respect to the cash collateral held by the Collateral Agent pursuant to clause (a) of this Section 7.6 shall be for the account of NRG Energy and shall constitute cash collateral to be held by the Collateral Agent or returned to NRG Energy in accordance with clause (a) of this Section 7.6 or in accordance with Section 2.2(c) or 2.3(b).

(c) NRG Energy may at any time replace cash on deposit in any Cash Collateral Account with an Acceptable Letter of Credit. Such Acceptable Letter of Credit shall be administered in accordance with Section 5.2 of the Depositary Agreement.

(d) Cash held in any Cash Collateral Account shall be invested and reinvested in Permitted Investments (which Permitted Investments shall be only those described in clauses (a), (b), (e), (f) or (g) of the definition thereof) by the Collateral Agent, which shall make such Permitted Investments (a) when no Issuer Event of Default has occurred and is continuing, at the written direction of NRG Energy (provided that in the absence of any contrary written direction of NRG Energy with respect to any cash held in any Cash Collateral Account, NRG Energy hereby directs the Collateral Agent to invest such cash in Permitted Investments of the type specified in clause (a) of the definition thereof (which direction is deemed to be a written investment instruction for purposes of the following sentence)), and (b) when an Issuer Event of Default has occurred and is continuing, in Permitted Investments of the type specified in clause (a) of the definition thereof. The Collateral Agent shall have no obligation to invest or reinvest any amounts held hereunder in the absence of written investment instructions, and in no event shall the Collateral Agent be liable for the selection of Permitted Investments or for investment losses, if any, incurred thereon. Any and all commissions, broker fees or other charges, penalties, fees or expenses incurred in connection with the investment in, or liquidation of, any Permitted Investment shall be solely for the account of NRG Energy, and shall be debited against the cash balance in the applicable Cash Collateral Account.

(e) The Collateral Agent shall sell or liquidate all or any portion of the Permitted Investments held in any Cash Collateral Account at any time the proceeds thereof are required to make any disbursement from such Cash Collateral Account in accordance with the terms of this Agreement. Any such sale or liquidation shall be in the order of maturity of the applicable Permitted Investments, with Permitted Investments closest to maturity being sold or

liquidated first. In no event shall the Collateral Agent be liable for any losses incurred as a result of the liquidation of any Permitted Investment prior to its stated maturity (including, without limitation, any early withdrawal or liquidation penalty) or the failure of any Person to provide timely written investment instructions.

SECTION 8
DEDUCTIONS/WITHHOLDING

All sums, if any, payable by NRG Energy hereunder shall be paid in full, free of any deductions or withholdings for any and all Taxes imposed by any governmental authority of any jurisdiction through which payment is made. In the event that NRG Energy is prohibited by law from making any such payments hereunder free of such deductions or withholdings, then NRG Energy shall pay such additional amount as may be necessary in order that the actual amount received after such deduction or withholding shall equal the full amount stated to be

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payable hereunder. NRG Energy shall pay directly to all appropriate taxing authorities any and all Taxes, and all liabilities with respect to such Taxes imposed by law or by any taxing authority on or with regard to any payment required to be made by NRG Energy hereunder. Notwithstanding the foregoing, if a payment due from NRG Energy hereunder relates to a payment which, if directly made by the Issuer or other primary obligor, would have been subject to deduction or withholding of Taxes without any gross-up obligation (or an obligation to pay an additional amount) on the part of the Issuer or other primary obligor, NRG Energy shall not be required to pay additional amounts under this Section 8.

SECTION 9
NOTICES

Section 9.1 Notices

Any notice or other communication hereunder shall be given in writing and shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), by overnight courier or by facsimile transmission with confirmation by overnight courier, and shall be deemed to have been duly given or made when received by the intended recipient in accordance with the provision of this Section 9. Unless otherwise specified in a notice given or made in accordance with this Section 9, notices shall be given to the respective parties at their respective address indicated below.

(a) If to NRG Energy, at:

NRG Energy, Inc.
901 Marquette Avenue
Suite 2300
Minneapolis, Minnesota 55402
Attn: General Counsel
Telephone No.: (612) 373-5300
Telecopy No.: (612) 373-5392

(b) If to the Collateral Agent, at:

The Bank of New York
101 Barclay Street
New York, NY 10286
Attn: Corporate Trust Administration
Telephone No.: (212) 896-7192
Telecopy No.: (212) 896-7298

SECTION 10
TERMINATION

This Agreement shall terminate upon the earlier of (a) payment in full of the Obligations or (b) the occurrence of an Early Termination Date, provided that NRG Energy's obligation to pay (i) the Experience Termination Payment, (ii) the Deductible Termination

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Payment and (iii) any amounts due and payable hereunder accruing prior to such Early Termination Date but which remain unpaid shall survive such termination on such Early Termination Date. Except as otherwise specified in clause (iii) of the proviso in the preceding sentence, the Other Undertakings for a Project Company and its Project shall terminate upon the earlier of (a) the occurrence of a Project Release Event with respect to such Project Company and (b) the occurrence of an Early Termination Date. The Collateral Agent agrees to execute such documents and take such other actions as reasonably requested by, and at the expense of, NRG Energy in order to effect and evidence any such termination.

SECTION 11
SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement may not be assigned by NRG Energy except with the consent of the Collateral Agent (in accordance with Section 9.2 of the Common Agreement) unless assigned, in part, in connection with a Permitted Change of Control in accordance with the Common Agreement, in which case the Associated Support Obligations in respect of the transferred assets or ownership interests, as the case may be, shall be assumed by a party (an "Acceptable Assignee") that either (x) is rated at least A3 by Moody's and A- by S&P or (y) is rated at least Baa2 by Moody's and BBB by S&P and has provided cash, Acceptable Letters of Credit or other credit support acceptable to the Controlling Party in its sole discretion with respect to that portion of the NRG Guaranteed Obligations under Section 2.3 assumed by the Acceptable Assignee.

SECTION 12
AMENDMENT

No amendment or waiver of any provision of this Agreement nor any consent to any departure by NRG Energy herefrom shall in any event be effective unless the same shall be in writing and signed by NRG Energy and the Collateral Agent (in accordance with Section 9.2 of the Common Agreement), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 13
EVENTS OF DEFAULT AND REMEDIES

Section 13.1 Events of Default. The occurrence of any of the following events shall constitute an event of default hereunder (an "NRG Event of Default"):

(a) NRG Energy shall fail to make any payment as and when due under this Agreement;

(b) Any representation or warranty by NRG Energy set forth in this Agreement or in any document entered into in connection herewith in favor of or for the benefit of any Secured Party or in any certificate, financial statement or other document delivered in connection herewith for the benefit of any Secured Party shall prove to have been incorrect in

any material respect when made (or deemed made) and the facts or events underlying such incorrect representation or warranty shall not be changed so as to correct such representation or warranty in all material respects for a period of 30 days (or so long as the facts or events underlying such incorrect representation or warranty are capable of being changed so as to correct such incorrect representation or warranty in all material respects and NRG Energy is diligently proceeding to change such events or facts, such longer period but in no event for an aggregate period in excess of 90 days) after a Responsible Officer of NRG Energy becomes aware thereof or NRG Energy first received a notice from or on behalf of the Controlling Party specifying such material inaccuracy and requiring that facts or events underlying such incorrect representation or warranty be changed so as to correct such incorrect representation or warranty in all material respects.

(c) NRG Energy shall default in the due observance or performance of any agreement contained in Section 4.1 (excluding Section 4.1(ii) but including the proviso thereto);

(d) NRG Energy shall default in the due observance or performance of any covenant, condition or agreement contained in this Agreement (other than specified in Section 13.1(c) above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Collateral Agent, provided, however, if (i) such failure does not consist of a failure to pay money and cannot be cured within such 30 day period, (ii) such failure is susceptible of cure within 90 days, (iii) NRG Energy is proceeding with diligence and in good faith to cure such failure, (iv) the existence of such failure has not had and cannot after considering the nature of the cure be reasonably expected to have an NRG Energy Material Adverse Effect, and (v) the Collateral Agent shall have received an officer's certificate signed by a Responsible Officer of NRG Energy to the effect of clauses (i), (ii), (iii) and (iv) above and stating what action NRG Energy is taking to cure such failure, then such 30 day cure period shall be extended to such date, not to exceed a total of 90 days, as shall be necessary for NRG Energy diligently to cure such failure; provided, further, that in the case of a default in the due observance or performance of Section 2.7, the applicable cure period shall not exceed a total of 60 days;

(e) NRG Energy shall default for a period beyond any applicable grace period (i) in the payment of any principal, interest or other amount due on any Debt for Borrowed Money of NRG Energy (other than amounts under the Financing Documents) and such defaulted amount, together with any other principal, interest or other amount due and unpaid on any Debt for Borrowed Money of NRG Energy (other than amounts under the Financing Documents) equals or exceeds \$50,000,000, or in the performance of any Specified Financial Covenant; or (ii) in the payment of any amount then due or performance of any obligation then required (other than a Specified Financial Covenant) under any agreement evidencing Debt of NRG Energy (other than the Financing Documents) if because of such default, the holder of such Debt accelerates the payment thereof and such accelerated amount, together with the amount of any other Debt of NRG Energy then so accelerated (other than the obligations under the Financing Documents) equals or exceeds \$50,000,000, provided, that it shall not constitute an NRG Event of Default as set forth in clause (i) with respect to a breach of any Specified Financial Covenant if, and for so long as, NRG Energy provides an officer's certificate from a responsible officer stating that either NRG Energy and the holder(s) of the relevant obligation(s) under the relevant agreement(s) in which such Specified Financial Covenant appears are, and continue to be, in

active discussions with respect to the waiver of such default (such Officer's Certificate to be renewed every 10 Business Days) or that a default no longer exists under such relevant agreements as a result of a breach of any Specified Financial Covenant;

(f) NRG Energy shall be subject to a Bankruptcy Event;

(g) One or more final judgments for the payment of money (if such payments are not fully covered by insurance) in excess of \$50,000,000 in the aggregate shall be rendered against NRG Energy, and NRG Energy shall fail to discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, within 60 days after the date of entry thereof; provided, however, that any such judgment shall not be (and shall not constitute part of) an NRG Event of Default under this Section 13.1(g) if and for so long as either (i) (A) the amount of such judgment is fully covered by a valid and binding policy of insurance between the defendant and the insurer covering payment thereof and (B) such insurer has been notified of, and has not disputed the claim made for payment of, the amount of such judgment, or (ii) such judgment if left unstayed could not reasonably be executed to have an NRG Material Adverse Effect; or

(h) With respect to any ERISA Plan which a member of the Controlled Group sponsors, maintains, administers, contributes to, participates in, or has any obligation to contribute to or any liability under, an event has occurred or a condition exists which, together with all other such events or conditions, would reasonably be expected to have an NRG Material Adverse Effect.

Section 13.2 Remedies. Upon the occurrence of an NRG Event of Default, the Collateral Agent (acting at the direction of the Controlling Party) shall (a) have the right to declare all obligations then due and payable under this Agreement to be immediately due and payable and require NRG Energy to immediately pay to the Collateral Agent in immediately available funds an amount equal to the aggregate amount of the obligations so accelerated (provided that in the event of an NRG Event of Default under Section 13.1(f) of this Agreement, such obligations shall be automatically accelerated), and (b) have all the rights and remedies available to it at law or in equity or by statute in respect of any default or breach by NRG Energy of its obligations under this Agreement; provided that (i) an NRG Event of Default shall not result in an Issuer Event of Default other than as expressly set forth in Section 7.1(m) of the Common Agreement, and (ii) upon the occurrence of an Early Termination Date, the Collateral Agent's sole remedy hereunder shall be to receive the Experience Termination Payment, the Deductible Termination Payment and any amounts due and payable hereunder accruing prior to such Early Termination Date but which remain unpaid. Other than as expressly provided herein, no remedy herein conferred upon or reserved to any party is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. In order to entitle any party to exercise any remedy reserved to it in this Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required by this Agreement. No failure or delay on the part of any party in exercising any right, power or privilege hereunder and no course of dealing between NRG Energy and any Secured Party shall operate as a waiver thereof; nor shall any single or

partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder.

The headings herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

SECTION 15
GOVERNING LAW

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE PRINCIPLES THEREOF RELATING TO CONFLICTS OF LAW EXCEPT SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

SECTION 16
CONSENT TO JURISDICTION;
APPOINTMENT OF AGENT FOR SERVICE OF PROCESS

With respect to any legal action or proceeding against NRG Energy arising out of or in connection with this Agreement, NRG Energy hereby irrevocably (i) consents to the jurisdiction of the courts of the State of New York, in and for the County of New York, and of the United States of America for the Southern District of New York, (ii) consents to the service of process outside the territorial jurisdiction of said courts in any such action or proceeding by mailing copies thereof by registered United States mail, postage prepaid, to the address specified pursuant to Section 9 hereof, and (iii) to the fullest extent permitted by Applicable Law, waives any objection to the venue of the aforesaid courts and any objection that the aforesaid courts are an inconvenient forum. NRG Energy hereby designates, appoints and empowers Corporation Service Company, with offices on the date hereof at 1177 Avenue of the Americas, 17th Floor, New York, New York 10036-2721, as its designee, appointee and agent with respect to any action or proceeding in New York to receive for and on its behalf service of any and all legal process, summons, notices and documents which may be served in any such action or proceeding and agrees that the failure of such agent to give any advice of any such service of process to such person shall not impair or affect the validity of such service or of any judgment based thereon. If for any reason such designee, appointee and agent shall cease to be available to act as such, NRG Energy agrees to designate a new designee, appointee and agent in New York City on the terms and for the purposes of this provision.

SECTION 17
WAIVER OF JURY TRIAL

THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN

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CONNECTION WITH, THIS AGREEMENT OR ANY OTHER FINANCING DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF THE PARTIES HERETO. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE COLLATERAL AGENT TO ENTER INTO THIS AGREEMENT.

SECTION 18
EXPENSES

NRG Energy will upon demand pay to the Collateral Agent, for itself and on behalf of the Secured Parties, any and all reasonable expenses, including reasonable attorneys' fees and expenses, which the Collateral Agent or the Controlling Party may incur in connection with the exercise or enforcement of any of the rights or interests of the Collateral Agent, on behalf of the Secured Parties, hereunder as a result of a breach of this Agreement by NRG Energy.

SECTION 19

MISCELLANEOUS

Section 19.1 Counterparts. This Agreement and any amendments, waivers, consents or supplements hereto or in connection herewith may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

Section 19.2 Severability. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 19.3 Limitation of Liability. Except as is specifically provided in this Agreement or in any other Financing Document to which it is a party, and except for any liabilities and obligations expressly assumed by NRG Energy pursuant to the terms of this Agreement or any other Financing Document to which it is a party, neither Collateral Agent nor any other Secured Party shall have any recourse to NRG Energy in respect of the Obligations. The provisions of Article 8 of the Common Agreement shall apply to this Agreement.

Section 19.4 Third Party Rights. Except to the extent set forth in Section 7.5, nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon, or give to any Person (other than Issuer, Collateral Agent and the Secured Parties) any security, rights, remedies or claims, legal or equitable, under or by reason hereof, or any covenant or condition hereof; and this Agreement and the covenants and agreements herein contained are and shall be held to be for the sole and exclusive benefit of Issuer, Collateral Agent and the Secured Parties.

Section 19.5 Survival of Obligations. All representations, warranties, covenants and agreements made herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the parties hereto and shall survive the execution and delivery of this Agreement, the termination of this Agreement and the making of the payments required under Section 2. Notwithstanding anything in this Agreement or implied by law to the contrary, the agreements of NRG Energy set forth in Sections 7.1, 9 and 18 shall survive the making of the payments required under Section 2 and the termination of this Agreement.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by their duly authorized officer(s) or representative(s) all as of the date first above written.

NRG ENERGY, INC.

By:

Name: -----

Title: -----

THE BANK OF NEW YORK,
as Collateral Agent

By:

Name: -----
Title: -----

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APPENDIX I

PERFORMANCE SHORTFALL

[TO COME]

APPENDIX II

TOTAL EXPERIENCE AMOUNT

[TO COME]

SCHEDULE A

Litigation

None, other than the following:

- (1) Those described in NRG Energy's Annual Report on Form 10-K for the year ended December 31, 2001, NRG Energy's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and/or any Current Report on Form 8-K of NRG Energy filed on or prior to the Closing Date;
- (2) On May 24, 2002, a class action was instituted in San Francisco County Superior Court in California against a group of generators, including NRG Energy's affiliates Cabrillo Power I, LLC, El Segundo Power, LLC, and Long Beach Generation, LLC (Bronco Don Holdings, LLP v. Duke Energy Trading and Marketing, LLC, et al.). This case essentially asserts the same claims set forth in the previously reported T&E Pastorino Nursery action, i.e., violation of California Business & Professions Code Section 17200 based on defendants' alleged withholding of electricity from the market to artificially create a shortage, violation of ancillary services agreements by various defendants, and market manipulation by defendants by means of their execution with the California Department of Water Resources of long term contracts, allegedly at supracompetitive rates. Similarly, in mid-May 2002, a class action was instituted in San Joaquin County Superior Court in California against energy suppliers, including the same NRG Energy affiliates (RDJ Farms, Inc., and Brititalia Ventures v. Allegheny Energy Supply Company, LLC et al.). This case asserts violations of California

Business & Professions Code Sections 16720 and 17200 again based on alleged exercise of market power by defendants, and market manipulation by defendants by means of their execution with the California Department of Water Resources of long term contracts, allegedly at supracompetitive rates. There can be no assurance as to the outcome of these claims.

- (3) In early June 2002, a class action was instituted in San Francisco County Superior Court in California against a group of generators and traders, including NRG Energy, on behalf of a putative class of rate payers in the State of Washington (Donna G. Hansen v. Dynegy Power Marketing, Inc., et al.). This action seeks injunctive and equitable relief, including restitution and disgorgement with respect to monetary injuries, for violations of California Business & Professions Code Sections 16720 and 17200 for alleged combining by the defendants to restrain the amount of energy available for sale through the California PX and ISO energy markets, conspiring to illegally obtain and trade information relating to energy supply, pricing and demand, and combining to raise the "market clearing bid" for electric energy on the PX wholesale markets, all of which allegedly raised prices for electricity to retail and wholesale consumers in the Pacific Northwest. There can be no assurance as to the outcome of these claims.

KEY EXECUTIVE RETENTION, RESTRUCTURING BONUS

AND SEVERANCE AGREEMENT

BETWEEN
NRG Energy, INC.
AND
SCOTT J. DAVIDO

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SEVERANCE AGREEMENT

Article 1. Establishment, Term and Purpose

1.1 Establishment of the Agreement. NRG Energy, Inc., hereby enters into this Key Executive Retention, Restructuring Bonus and Severance Agreement with Scott J. Davido (the "Participant") as of the Effective Date stated below.

1.2 Term of the Agreement. This Agreement shall be effective on the Effective Date and shall remain in effect until the earlier of: (a) a Restructuring Event or (b) termination of the Participant's employment with the Company.

1.3 Purpose of the Agreement. The purpose of the Agreement is to provide an executive officer and key person of the Company (i) a retention bonus; (ii) compensation for contributing to a Restructuring Event; and (iii) financial security in the event of a termination of employment from the Company. Except as provided in Section 1.4 below, this Agreement shall supercede any other restructuring incentive, severance or severance-related plan or agreement in which the Participant had participated. The Board has determined that Scott J. Davido is eligible to participate in the Agreement as of the Effective Date.

1.4 Except as specifically set forth herein, nothing in this Agreement shall replace or supercede the October 1 Letter Agreement or the October 2 Letter Agreement; provided, however, that this agreement shall replace and supercede the severance provisions in each such Letter Agreement.

Article 2. Definitions

Whenever used in this Agreement, the following terms shall have the meanings set forth below:

2.1 "Agreement" means this Key Executive Retention, Restructuring Bonus and Severance Agreement between the Company and Scott J. Davido.

2.2 "Bankruptcy Code" means title 11 of the United States Code, 11 U.S.C. Sections 101-1330.

2.3 "Base Salary" means an amount equal to the Participant's base annual salary as of the date of his termination of employment or a Restructuring Event, as applicable. For this purpose, "Base Salary" shall not include bonuses, long-term incentive compensation, or any remuneration other than base annual salary.

2.4 "Beneficial Owner" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.5 "Beneficiary" means the persons or entities designated or deemed to be designated by the Participant.

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2.6 "Board" means the Board of Directors of the Company.

2.7 "Cause" means the occurrence of any one or more of the following events:

- (a) The continued failure by the Participant to substantially perform his normal duties (other than any such failure resulting from the Participant's Disability), after a written demand for substantial performance, signed by the CEO or the Participant's immediate supervisor, is delivered to the Participant, that identifies the manner in which the Participant has not substantially performed his duties, and the Participant has failed to remedy the situation within thirty (30) business days of receiving such notice;
- (b) The Participant's conviction or guilty plea for committing an act of fraud, embezzlement, theft, or other act constituting a felony; or the Participant's violation of the Company Code of Conduct; or
- (c) The engaging by the Participant in willful, reckless or grossly negligent conduct materially and demonstrably injurious to the Company. However, no act, or failure to act on the Participant's part, shall be considered "willful, reckless or grossly negligent" unless done, or omitted to be done, by the Participant not in good faith and without

reasonable belief that his action or omission was in the best interest of the Company.

2.8 "Code" means the United States Internal Revenue Code of 1986, as amended.

2.9 "Company" means NRG Energy, Inc., a Delaware corporation or any successor thereto as provided in Article 12 herein.

2.10 "Disability" means the definition provided in the Company's long term disability plan.

2.11 "Effective Date" means the date on which this Agreement is executed by the parties, as set forth herein.

2.12 "Effective Date of Termination" means the date on which Participant's employment termination occurs that triggers the payment of Severance Benefits hereunder.

2.13 "Exchange Act" means the United States Securities Exchange Act of 1934, as amended.

2.14 "Good Reason" means, without the Participant's express written consent, the occurrence of any one or more of the following:

- (a) Any significant and material reduction in the Participant's Base Salary or target annual bonus below the amount in effect immediately preceding the reduction (including all increases following the Effective Date), except in

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the case of a reduction that similarly applies to all executives on a nondiscriminatory basis.

- (b) Any significant and material reduction in the Participant's benefits package, except in the case of a reduction that similarly applies to all executives on a nondiscriminatory basis.
- (c) Any assignment of new duties that requires the Participant to relocate his domicile more than fifty (50) miles from the Participant's current work location.
- (d) Any significant and material reduction or diminution in the duties, responsibilities, or position of the Participant from that in effect immediately prior to such reduction or diminution, provided that the sale of a Company division or sale of a division of a subsidiary company will not automatically be deemed to result in the significant reduction or diminution in the duties, responsibilities, or position of the Participant without a specific showing of such reduction or diminution.
- (e) Any significant increase in responsibility without corresponding compensation (with "responsibility" defined as those responsibilities as in effect as of the Effective Date.

The Participant's right to terminate employment for Good Reason shall not be affected by the Participant's incapacity due to Disability. The Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason herein.

2.15 "October 1 Letter Agreement" means the letter agreement between

the Company and the Participant dated October 1, 2002, relating to the Participant's employment with the Company, which is attached hereto as Exhibit A.

2.16 "October 2 Letter Agreement" means the letter agreement between the Company and the Participant dated October 2, 2002, relating to the Participant's employment with the Company, which is attached hereto as Exhibit B.

2.17 "Notice of Termination" means a written notice that indicates the specific termination provision in this Agreement relied upon, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated.

2.18 "Participant" means Scott J. Davido, an executive officer and key person of the Company.

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2.19 "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).

2.20 "Restructuring Event" means (i) the consummation of a consensual out of court restructuring of all or substantially all of the debt of the Company (an "Out of Court Restructuring"); (ii) the confirmation of a plan of reorganization for the Company under Chapter 11 of Bankruptcy Code, including but not limited to a plan providing for the sale of all or substantially all of the assets of the Company; or (iii) the consummation of a sale of all or substantially all of the assets of the Company as a part of an Out of Court Restructuring.

2.21 "Restructuring Bonus" means the payment described in Section 3.2 herein.

2.22 "Retention Bonus" means the payment described in Section 3.4 herein.

2.23 "Retention Period" shall have the meaning ascribed to such term in Section 3.4 herein;

2.24 "Retirement" means retirement as defined in the applicable NRG Energy, Inc. retirement program in which the Participant is eligible, which may be amended from time to time as directed by the Board.

2.25 "Severance Benefits" means the payment of severance compensation as provided in Article 4 herein.

2.26 "Xcel" shall mean Xcel Energy, Inc, a Minnesota corporation, or any successor thereto.

Article 3. Restructuring Bonus

3.1 Right to Restructuring Bonus.

Subject to the provisions herein, upon the occurrence of a Restructuring Event, the Participant shall be entitled to receive from the Company a Restructuring Bonus, as described in Section 3.2 herein, to be paid to the Participant in a lump sum within 30 days following a Restructuring Event.

3.2 Description of Restructuring Bonus.

If the Participant is entitled to receive a Restructuring Bonus, the amount of the Restructuring Bonus shall equal two (2) times the sum of: (i) the

Participant's Base Salary; and (ii) the greater of: (a) the Participant's average annual bonus earned over the two (2) most recent full fiscal years prior to the Restructuring Event; or (b) the Participant's target annual bonus established for the bonus plan year in which the Restructuring Event occurs.

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3.3 Termination of Participant

The Participant shall not be entitled to a Restructuring Bonus if he is terminated for Cause, or if his employment with the Company ends due to Disability, Retirement, or due to a voluntary termination of employment by the Participant without Good Reason.

3.4 Retention Bonus.

Within ten (10) days of the Effective Date, the Company shall pay to the Participant a Retention Bonus in the amount of One Hundred and Fifty Thousand Dollars (\$150,000.00). The Participant shall be entitled to retain the entire Retention Bonus irrespective of whether (a) a Restructuring Event occurs, (b) the Company terminates the Participant's employment, or (c) the Participant terminates his employment for Good Reason. If, however, the Participant voluntarily terminates his employment without Good Reason between the Effective Date and July 31, 2003, the Participant shall be obligated to return to the Company within ten (10) days of such termination a prorata portion of the Retention Bonus. Such prorata amount to be returned shall be determined by multiplying \$150,000.00 by a fraction, (i) the numerator of which shall equal the difference between (x) the total number of days between the Effective Date and July 31, 2003 (the "Retention Period") minus (y) the total number of days between the Effective Date and the Participant's date of termination and (ii) the denominator of which shall equal the total number of days in the Retention Period.

Article 4. Severance Benefits

4.1 Right to Severance Benefits. Subject to the provisions herein, the Participant shall be entitled to receive from the Company Severance Benefits as described in Section 4.2 herein, if the Participant's employment with the Company is terminated by the Company without Cause or the Participant terminates employment for Good Reason.

The Participant shall not be entitled to receive Severance Benefits under Section 4.2 herein if he is terminated for Cause, or if his employment with the Company ends due to Disability, Retirement, or due to a voluntary termination of employment by the Participant without Good Reason.

4.2 Description of Severance Benefits. If the Participant becomes entitled to receive Severance Benefits, as provided in Section 4.1 herein, the Participant shall receive the following Severance Benefits:

- (a) Two (2) times the sum of: (i) the Participant's Base Salary; and (ii) the greater of: (a) the Participant's average annual bonus earned over the two (2) most recent full fiscal years prior to the Effective Date of Termination; or (b) the Participant's target annual bonus established for the bonus plan year in which the Participant's Effective Date of Termination occurs.

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- (b) An Amount equal to the Participant's unpaid targeted annual incentive, established for the plan year in which the

Participant's Effective Date of Termination occurs, multiplied by a fraction, the numerator of which is the number of days completed in the then existing fiscal year through the Effective Date of Termination, and the denominator of which is three hundred sixty-five (365).

- (c) A net cash payment equivalent to the COBRA premiums as in effect as of the Participant's termination of employment of the medical insurance and dental insurance for a period of eighteen (18) months. This cash payment shall be made in one lump sum (net of applicable withholding).

COBRA election and continuation shall be the responsibility of the participant and/or qualified beneficiaries.

In the event the COBRA premium shall change for all employees of the Company, the premium, likewise, shall change for the Participant in a corresponding manner.

- (d) A cash payment of vacation and/or paid time off time earned prior to the Effective Date of Termination, but not taken by the Participant.

4.3 Termination due to Disability. If the Participant's employment is terminated due to Disability during the term of this Agreement, the Participant shall receive his Base Salary and accrued vacation and/or paid time off through his termination of employment and continuation of the medical insurance, dental insurance and group term life insurance shall be subject to the terms under the applicable disability plan of the Company.

4.4 Termination Due to Retirement or Death. If the Participant's employment is terminated by reason of Retirement or death, the Participant or, where applicable, the Participant's Beneficiaries, shall receive the Participant's Base Salary and accrued vacation/paid time off through his termination of employment, and continuation of the welfare benefits of medical insurance, dental insurance, and group term life insurance shall be subject to the treatment provided under the applicable retirement or health and welfare plan of the Company. If the Participant's employment is terminated by reason of death the amounts to be paid under this Agreement shall be paid to the Participant's estate.

4.5 Termination for Cause or by the Participant Other Than for Good Reason. If the Participant's employment is terminated either: (a) by the Company for Cause; or (b) by the Participant without Good Reason, the Company shall pay the Participant his unpaid Base Salary and accrued vacation/paid time off through his termination of employment, at the rate then in effect, plus all other amounts to which the Participant is entitled under any compensation plans of the Company, at the time such payments are due; and the Company shall have not further obligations to the Participant under this Agreement.

4.6 Notice of Termination. Any termination by the Company for Cause or by the Participant for Good Reason shall be communicated to the other party at least one hundred twenty (120) days prior to the date on which such termination shall be effective. The Company can terminate the employment of the Participant with no notice in which case the Company shall provide the Participant with continuation of pay of one hundred twenty (120) days.

4.7 Form and Timing of Severance Benefits. At the discretion of the Company, all cash payments set forth in Section 4.2 shall be made in 30 equal monthly installments, net of appropriate withholdings, or in one (1) lump sum, net of appropriate withholdings, within a reasonable period of time, commencing or paid at a time not to exceed one hundred twenty (120) days after the Effective Date of Termination.

Article 5. Excise Tax

5.1 Excise Tax Equalization Payment. If the Participant becomes entitled to severance benefits or any other payment or benefit under this Agreement, or under any other agreement or plans of the Company (in the aggregate, the "Total Payments"), and any of the Total Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (or any similar tax that may hereafter be imposed), the Company shall pay to the Participant in cash an additional amount (the "Gross-Up Payment") such that the net amount retained by the Participant after deduction of any Excise Tax upon the Total Payments and any federal, state and local income tax and Excise Tax upon the Gross-Up Payment provided for by this Section 5.1 (including FICA and FUTA), shall be equal to the Total Payments. Such payment shall be made by the Company to the Participant as soon as practicable following the effective date of termination, but in no event beyond forty-five (45) days from such date.

5.2 Tax Computation. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax:

- (a) Any other payments or benefits received or to be received by the Participant in connection with a Restructuring Bonus or the Participant's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, or with any person (which shall have the meaning set forth in Section 3(a)(9) of the Securities Exchange Act of 1934, including a "group" as defined in Section 13(d) therein) whose actions result in a Change in Control of the Company or any person affiliated with the Company or such persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(1) of the Code and shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel as supported by the Company's independent auditors and acceptable to the Participant, such other payments or benefits (in whole or in part) do not, or unless such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess

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of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

- (b) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of: (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(3) (after applying clause (a) above); and
- (c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of Section 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-Up Payment, the Participant shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Participant's residence on the effective date of termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

5.3 Subsequent Recalculation. If the Internal Revenue Service adjusts the computation of the Company under Section 5.2 herein so that the Participant did not receive the greatest net benefit, the Company shall reimburse the Participant for the full amount necessary to make the Participant whole, plus a market rate of interest, as determined by the Committee.

Article 6. Outplacement Assistance

Following a termination of employment in which Severance Benefits are payable hereunder, the Participant shall be reimbursed by the Company for the costs of all outplacement services obtained by the Participant within the two (2) year period after the Effective Date of Termination; provided, however, that the total reimbursement shall be limited to \$15,000.

Article 7. The Company's Payment Obligation

7.1 Payment Obligations Absolute. Except as provided herein, the Company's obligation to make the payments and the arrangements provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without limitation, any offset, counterclaim, recoupment, defense, or other right which the Company may have against the Participant or anyone else. All amounts payable by the Company hereunder shall be paid without notice or demand. Except as provided herein, each and every payment made hereunder by the Company shall be final, and the Company shall not seek to recover all or any part of such payment from the Participant or from whomever may be entitled thereto. Notwithstanding the foregoing, the Company reserves the right to conduct an independent investigation for the sole purpose of determining whether "Cause" exists that would negate a payment hereunder. Until the conclusion of such investigation (which shall be conducted expeditiously) the Company reserves the right to suspend payment of benefits or alternatively, to condition any benefits on the results of such investigation. For purposes of this section, "expeditiously" shall be defined as

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a reasonable period of time not to exceed six (6) months. Participant shall be notified within thirty (30) days of the conclusion of the investigation.

The Participant shall not be obligated to seek other employment in mitigation of the amounts payable or arrangement made under any provision of this Agreement, and the obtaining of any such other employment shall in no event affect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Agreement.

7.2 Contractual Rights to Benefits. This Agreement establishes and vests in the Participant a contractual right to the benefits to which he is entitled hereunder. However, nothing herein contained shall required or be deemed to require, or prohibit or be deemed to prohibit, the Company to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

7.3 Bankruptcy Court Approval

Participant acknowledges that an involuntary petition under the Bankruptcy Code has been filed against the Company in the United States Bankruptcy Court for the District of Minnesota (the "Bankruptcy Court"). If an order for relief under the Bankruptcy Code is entered against the Company in the Bankruptcy Court or any other bankruptcy court, or if the Company commences a voluntary case under Chapter 11 of the Bankruptcy Code, the Company shall promptly move the applicable bankruptcy court for an order authorizing the assumption of this Agreement under section 365 of the Bankruptcy Code or such other relief as appropriate to ensure compliance with this Agreement by the Company and the receipt by the Participant of the rights granted hereunder.

7.4 Xcel Guaranty.

Xcel hereby agrees to guarantee the terms of this Agreement and perform the obligations hereunder if the Company is unable or unwilling to perform such obligations. A duly authorized representative of Xcel has executed this Agreement below for the sole purposes of signifying its agreement to this Section 7.4.

Article 8. Withholding

The Company shall be entitled to withhold from any amounts payable under this Agreement all taxes as legally shall be required (including, without limitation, any United States federal taxes, and any other state, city, or local taxes).

Article 9. Non-Competition Other Than Upon Change in Control

9.1 Prohibition on Competition. The Participant agrees that during the course of the Participant's employment with the Company, without the prior written consent of the Company, and for one (1) year from the date of the Participant's voluntary or involuntary termination of employment with the Company, the Participant shall not:

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- (a) Directly or indirectly own, manage, consult, associate with, operate, join, work for, control or participate in the ownership, management, operation or control of, or be connected in any manner with, any business (whether in corporate, proprietorship, or partnership for or otherwise), as more than a 10% owner in such business or member of a group controlling such business, which is engaged in any activity which competes with the business of the company as conducted one (1) year prior to (and up through) the date of the Participant's involuntary or voluntary termination of employment with the Company or which will compete with any proposed business activity of the Company in the planning stage on such date of involuntary or voluntary termination. The participant and the Company agree that this provision is reasonably enforced as to any geographic area.
- (b) Directly or indirectly solicit, service, contract with or otherwise engage any past (one year prior), existing or prospective customer, client or account who then has a relationship with the Company for current or prospective business on behalf of a competitor of the Company, or on the Participant's own behalf for a competing business. The Participant and the Company agree that this provision is reasonably enforced with reference to any geographic area applicable to such relationships with the Company.
- (c) Cause or attempt to cause any existing or prospective customer, client, or account, who then has a relationship with the Company for current or prospective business, to divert, terminate, limit or in any manner modify, or fail to enter into any actual or potential business relationship with the Company. The Participant and the Company agree that this provision is reasonably enforced with reference to any geographic area applicable to such relationships with the Company.
- (d) The Company agrees that the terms "activity", "which competes with the business of the Company", "competitor of the Company", "competing business", and "relationship with the Company" as used in this Agreement shall be reasonably

construed and applied.

9.2 Disclosure of Information. The Participant recognizes that he has access to and knowledge of certain confidential and proprietary information of the Company, which is essential to the performance of his duties as an employee of the Company. The Participant will not, during or after the term of his employment with the Company, in whole or in part, disclose such information to any person, firm, corporation, association, or other entity for any reason or purpose whatsoever, nor shall he make use of any information for his own purposes.

9.3 Covenants Regarding Other Employees. During the period ending one (1) year following the payment of Severance Benefits under this Agreement, the Participant agrees to not

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directly or indirectly solicit, employ or conspire with others to employ any of the Company's employees. The term "employ" for purposes of this paragraph means to enter into an arrangement for services as a full-time or part-time employee, independent contractor, consultant, agent or otherwise. The Participant and the Company agree that this provision is reasonably enforced as to any geographic area.

Article 10. Non-Disparagement

10.1 Disparagement. The Participant and the Company, each agrees not to make any disparaging or negative statements about the Company or the Participant, including but not limited to its products, services or management any person or entity whatsoever, including but not limited to past, present and prospective employees or employers, customers, clients, analysts, investors, vendors and suppliers.

10.2 Release. In order to receive the benefits provided under the Agreement (other than accrued vacation and paid time-off), the Participant will be required to provide the Company with a release in a form to be provided by the Company, or, if Xcel provides the benefits, the Participant will be required to provide Xcel and the Company with a release in a form to be provided by Xcel. Such release shall fully release the Company or Xcel, as applicable, and all of its officers, agents, directors, employees, and representatives, any affiliated companies, businesses or entities, and all other persons and entities from each and every legal claim or demand of any kind that the Participant ever had or might have arising out of any action, conduct or decision taking place during the Participant's employment with the Company, or arising out of the Participant's separation from that employment, whether or not any such claim known at the time of separation.

Article 11. Successors and Assignment

11.1 Successors to the Company. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Company or of any division or subsidiary thereof that employed the Participant at the time of Termination of Employment to expressly assume and agree to perform the Company's obligations under this Agreement in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effective date of any such succession shall be a breach of this Agreement and shall entitle the Participant to compensation from the Company in the same amount and on the same terms as he would be entitled to hereunder if he had terminated his employment with the Company voluntarily for Good Reason. Except for the purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Effective Date of Termination.

11.2 Assignment by the Participant. This Agreement shall inure to the

benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Participant dies while any amount would still be payable to him hereunder had he continued to live, all such amounts, unless

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otherwise provided herein, shall be paid in accordance with the terms of this Agreement, to the Participant's Beneficiary. If the Participant has not named a Beneficiary, then such amounts shall be paid to the Participant's devisee, legatee, or other designee, or if there is not such designee, to the Participant's estate.

Article 12. Miscellaneous

12.1 Beneficiaries. The Participant may designate one or more persons or entities as the primary and/or contingent beneficiaries of any Severance Benefits or Change in Control Severance Benefits owing to the Participant under this Agreement. Such designation must be in the form of a signed writing acceptable to the Company. The Participant may make or change such designations at any time.

12.2 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the feminine shall include the masculine, the plural shall include the singular, and the singular shall include the plural.

12.3 Severability. In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included. Further, the captions of this Agreement are not part of the provisions hereof and shall have no force and effect.

12.4 Modification. No provision of this Agreement may be modified, waived, or discharged unless such modification, waiver, or discharge is agreed to in writing and signed by the Participant and by an authorized representative of the Company, or by the respective parties' legal representative and successors.

12.5 Applicable Law. To the extent not preempted by the laws of the United States, the laws of the State of Minnesota, shall be the controlling law in all matters relating to this Agreement.

SCOTT J. DAVIDO

/s/ Scott J. Davido

Participant's Signature

2/18/03

Date

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By: /s/ RICHARD C. KELLY

Richard C. Kelly

Title: President and Chief Operating Officer

Date: 2/18/03

XCEL ENERGY INC. (for purposes of Section 7.4
only)

By: /s/ RICHARD C. KELLY

Richard C. Kelly

Title: Vice President and Chief Financial
Officer

Date: 2/18/03

(NRG LETTERHEAD)

January 30, 2003

Mr. Ershel Redd Jr.
Senior Vice President, Commercial Operations
NRC Energy, Inc.
901 Marquette Avenue
Suite 2500
Minneapolis, MN 55402

Dear Ershel:

I refer you to my employment offer letter to you dated October 8, 2002, and countersigned by you on October 9, 2002 ("Offer Letter") and specifically to the "Severance Benefit" provision therein.

As is set forth in that Severance Benefit provision, NRG Energy, Inc. ("NRG") recognizes that as of the time you were still employed by Xcel Energy, Inc., you were eligible for benefits under the Xcel Energy Business Unit Vice President Severance Plan (the "Plan") and that you agreed to withdraw from eligibility under the Plan upon your commencement of employment with NRG and in consideration for the benefits set forth in the Severance Benefit provision of the Offer Letter. A copy of the Plan is appended hereto as Exhibit 1.

NRG has not adopted the Plan and does not hereby adopt the Plan. However, in keeping with the intentions set forth in the Offer Letter, and for good and valuable consideration herein acknowledged by NRG and Xcel Energy, Inc., NRG does hereby agree that it shall -- in your case alone and without adopting the Plan -- assume all of the obligations set forth in the Plan as if you, Ershel Redd alone were the "Participant" and "Employee" under the Plan and NRG were the "Employer," "Corporation" and "Company" under the terms of the Plan. Specifically, NRG hereby incorporates all of the terms of the Plan into its Employment relationship with you, as if NRG were the "Employer," "Corporation" and "Company" therein and you were the "Participant" and "Employee" therein. Please note, however, that for your purposes we have substituted a new Exhibit A -- Form of Release Agreement as an attachment to the Plan, and it is this substituted Exhibit A which you will have to execute and not revoke in order to receive the Severance Benefits contemplated herein.

In further keeping with the intent of the Severance Benefit provision of the Offer Letter, and in my capacity as an officer of Xcel Energy, Inc., by my separate signature below Xcel Energy, Inc., hereby guarantees that in the event and to the extent NRG fails to provide you all benefits under the Plan it hereby promises you, Xcel Energy, Inc. guarantees that it shall provide those promised benefits to you.

Mr. Ershel Redd
January 30, 2003
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Ershel, in order to confirm your agreement to these terms, please execute and return to Denise Wilson an original version of this letter agreement in the envelope attached.

Sincerely,

/s/ RICHARD C. KELLY

Richard C. Kelly
President and COO
NRG Energy, Inc

With respect to the guarantee set forth above:

/s/ RICHARD C. KELLY

Richard C. Kelly
Vice President and CFO
Xcel Energy, Inc.

Ershel Redd Jr.

Date

EXHIBIT 1

XCEL ENERGY BUSINESS UNIT VICE PRESIDENT SEVERANCE PLAN

ARTICLE I
ESTABLISHMENT OF PLAN

As of the Effective Date, the Corporation hereby establishes a separation compensation plan known as the Xcel Energy Business Unit Vice President Severance Plan.

ARTICLE II
DEFINITIONS

As used herein, the following words and phrases shall have the following respective meanings unless the context clearly indicates otherwise.

(a) Annual Salary. The Participant's regular annual base salary immediately prior to his or her termination of employment, including compensation converted to other benefits under a flexible pay arrangement maintained by the Corporation or deferred pursuant to a written plan or agreement with the Corporation, but excluding overtime pay, allowances, premium pay, compensation paid or payable under any Corporation long-term or short-term incentive plan or any similar payment.

(b) Change in Control. The same meaning as given to it in, Section 2, subsections (a) through (d) in the Xcel Energy Inc. Omnibus Incentive Plan, as amended from time to time.

(c) Code. The Internal Revenue Code of 1986, as amended from time to time.

(d) Corporation. Xcel Energy Inc. and any successor thereto.

(e) Date of Termination. The date on which a Participant ceases to be an Employee.

(f) Effective Date. April 1, 2002.

(g) Employee. Any full-time, regular-benefit, non-bargaining employee of an Employer. The term shall exclude all individuals employed as independent contractors, temporary employees, other benefit employees, non-benefit employees, leased employees, even if it is subsequently determined that such classification is incorrect.

(h) Employer. The Corporation or a Subsidiary which has

adopted the Plan pursuant to Article V hereof.

(i) Participant. An individual who is designated as such pursuant to Section 3.1.

(j) Plan. The Xcel Energy Business Unit Vice President Severance Plan.

(k) Release Agreement. An agreement substantially in the form set forth in Exhibit A to this Plan, with such amendments as the Corporation may determine to be necessary in order for such agreement to constitute a valid release by the Participant in question of all claims described therein.

(l) Separation Benefits. The payments are benefits described in Section 4.3 that are provided to qualifying Participants under the Plan.

(m) Separation Period. The period beginning on a Participant's Date of Termination and ending upon expiration of one and one-half years.

(n) Subsidiary. Any corporation in which the Corporation, directly or indirectly, holds a majority of the voting power of such corporation's outstanding shares of capital stock.

(o) Target Annual Incentive. The Annual Incentive Award that the Participant would have received for the year in which his or her Date of Termination occurs, if the target goals had been achieved.

ARTICLE III ELIGIBILITY

3.1 PARTICIPATION. Employees classified in salary grade BVP shall be Participants in the Plan.

3.2 DURATION OF PARTICIPATION. A Participant shall only cease to be a Participant in the Plan as a result of an amendment or termination of the Plan complying with Article VII of the Plan, or when he or she ceases to be an Employee of any Employer, unless, at the time he or she ceases to be an Employee, such Participant is entitled to payment of a Separation Benefit as provided in the Plan or there has been an event or occurrence described in Section 4.2(a) which would enable the Participant to terminate employment and receive a Separation Benefit. A Participant entitled to payment of a Separation Benefit or any other amounts under the Plan shall remain a Participant in the Plan until the full amount of the Separation Benefit and any other amounts payable under the Plan have been paid to the Participant.

ARTICLE IV SEPARATION BENEFITS

4.1 RIGHT TO SEPARATION BENEFIT. A Participant shall be entitled to receive Separation Benefits in accordance with Section 4.3 if the Participant ceases to be an Employee for any reason specified in Section 4.2(a).

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4.2 TERMINATION OF EMPLOYMENT.

(a) Terminations Which Give Rise to Separation Benefits Under This Plan. Except as set forth in subsection (b) below, a Participant shall be entitled to Separation Benefits if,

(i) The Participant ceases to be an Employee by action of the Employer or any of its affiliates (excluding any transfer to another employer); or

(ii) The Participant's position is eliminated without a comparable position becoming available, or being offered to the Participant; or

(iii) The Employee's Annual Salary is reduced by 10% or more; or

(iv) The Employee is required to relocate to a location greater than fifty miles from his or her current working location; or

(v) The Employee ceases to be classified as a Business Unit Vice President, and within the twelve month period following such event, (i), (ii), (iii) or (iv) above occurs.

(b) Terminations Which Do Not Give Rise to Separation Benefits Under This Plan. If a Participant's employment is terminated for Cause, death, disability, retirement, or a qualified sale of business (as those terms are defined below), or voluntarily by the Participant in the absence of an event described in subsection (a)(ii) of this Section 4.2, the Participant shall not be entitled to Separation Benefits under the Plan.

(i) A termination for disability shall have occurred where a Participant is terminated because of an illness or injury and the Participant has become eligible to receive long-term disability benefits under, or would have become so eligible if such Participant were covered by, the Corporation's long-term disability plan, as it exists at the time of termination of employment.

(ii) A termination by retirement shall have occurred where a Participant's termination is due to his voluntary late, normal or early retirement under a pension plan sponsored by his Employer or its affiliates, as defined in such plan.

(iii) A termination for Cause shall have occurred where a Participant is terminated because of:

(A) the willful and continued failure of the Participant to perform substantially the Participant's duties with the

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Corporation or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by an elected officer of the Corporation which specifically identifies the manner in which the elected officer believes that the Participant has not substantially performed the Participant's duties, or

(B) the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Corporation.

For purposes of this provision, no act or failure to act, on the part of the

Participant, shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Corporation. Any act or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board, or upon the advice of counsel for the Corporation, shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Corporation.

4.3 SEPARATION BENEFITS.

(a) If a Participant's employment is terminated in circumstances entitling him to a separation benefit as provided in Section 4.2(a)(i), or if the circumstances under Section 4.2(a)(ii), (iii), or (iv) occur and the Participant (or representative) notifies the Company in writing within sixty days of such occurrence, and the Participant executes and does not revoke a Release Agreement, the Participant's Employer shall pay such Participant, within a reasonable and administratively practicable time following the Date of Termination, or if later, upon the date such Release Agreement becomes irrevocable, a cash lump sum as set forth in subsection (b) below and the continued benefits set forth in subsection (c) below, subject to Section 4.6 below. For purposes of determining the benefits set forth in subsection (b) and (c), if the termination of the Participant's employment is based upon a reduction of the Participant's Annual Salary as described in subsection (iii) of Section 4.2, such reduction shall be ignored.

(b) The cash lump sum referred to in Section 4.3(a) shall equal the aggregate of the following amounts:

(i) the sum of, (1) the Participant's Annual Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Target Annual Incentive and (y) a fraction; the numerator of which is the number of days in such year through the Date of Termination, and the denominator of which is 365, and (3) any compensation previously deferred by the Participant (together with any accrued interest or earnings thereon) and any accrued but unused Paid-Time-Off pay, in each case to the extent not theretofore paid and in full satisfaction of the rights of the Participant thereto;

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(ii) an amount equal to the product of 1.5 times the sum of (x) the Participant's Annual Salary, plus (y) the Target Annual Incentive Award.

(iii) an amount equal to the difference between (a) the actuarial equivalent of the benefit under the Corporation's qualified defined benefit retirement plan (the "Retirement Plan") and any excess or supplemental retirement plans in which the Participant would receive if his or her employment continued during the Separation Period, assuming that the Participant's compensation during the Separation Period would have been equal to his or her compensation as in effect immediately before the termination or, if higher, on the Effective Date, and (b) the actuarial equivalent of the Participant's actual benefit (paid or payable), if any, under the Retirement Plan as of the Date of Termination. The actuarial assumptions used for purposes of determining actuarial equivalence shall be no less favorable to the Participant than the most favorable of those in effect under the Retirement Plan on the Date of Termination and the Effective Date; and

(iv) the sum of the additional contributions (other

than pre-tax salary deferral contributions by the Participant) that would have been made or credited by the Company to the Participant's accounts under each qualified defined contribution plan and non-qualified supplemental executive savings plan, if any, that covered the Participant on the date the termination of employment occurred, determined by assuming that:

(A) The Participant's employment had continued for the Separation Period;

(B) The Participant's rate of compensation being recognized by each plan immediately prior to the Date of Termination had continued in effect during the Separation Period;

(C) In the case of matching contributions, the Participant's rate of pre-tax salary deferral contributions in effect for the last plan year beginning prior to the Date of Termination had remained in effect throughout the Separation Period; and

(D) In the case of discretionary contributions by the Company, the Company continued to make such contributions during the Separation Period at the rate that applied to the most recent plan year that ended prior to the Date of Termination.

(c) The continued benefits referred to above shall be as follows:

(i) During the Separation Period, the Participant and his family shall be provided with medical, dental, vision and life insurance benefits as if the Participant's employment had not been terminated;

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provided, however, that if the Participant becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer-provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility; and for purposes of determining eligibility (but not the time of commencement of benefits) of the Participant for retiree medical, dental, vision and life insurance benefits under the Corporation's plans, practices, programs and policies, the Participant shall be considered to have remained employed during the Separation Period and to have retired on the last day of such period;

(ii) The Corporation shall, at its sole expense as incurred, provide the Participant with outplacement services the scope and provider of which shall be selected by the Participant in his or her sole discretion (but at a cost to the Corporation of not more than \$15,000);

(iii) The Corporation shall continue to provide the Participant with financial planning counseling benefits through the one year anniversary of the Date of Termination; on the same terms and conditions as were in effect immediately before the termination or, if more favorable, on the Effective Date and

(iv) The Corporation will pay the business unit vice president with his or her "flexible perquisite allowance" through the Separation

Period. At the election of the Corporation, such amount may be paid as a lump sum;

To the extent any benefits described in this Section 4.3(c) cannot be provided pursuant to the appropriate plan or program maintained for Employees, the Employer shall provide such benefits outside such plan or program at no additional cost (including without limitation tax cost) to the Participant. Notwithstanding the foregoing, if a group insurance carrier refuses to provide the coverage described in this Section 4.3(c) under its contract issued to the Corporation, or if the Corporation reasonably determines that the coverage required under this Section 4.3(c) would cause a welfare plan sponsored by the Corporation to violate any provision of the Code prohibiting discrimination in favor of highly compensated employees or key employees, the Corporation will use its best efforts to obtain for the Participant an individual insurance policy providing comparable coverage. However, if the Corporation determines in good faith that comparable coverage cannot be obtained for less than two times the premium or premium equivalent for such coverage under the Corporation's welfare plan or plans, the Corporation's sole obligation under this Section 4.3(c) with respect to that coverage will be limited to paying the Participant a monthly amount equal to two times the monthly premium or premium equivalent for that coverage under the Corporation's plans.

4.4 OTHER BENEFITS PAYABLE. The cash lump sum and continuing benefits described in Section 4.3 above shall be payable in addition to, and not in lieu of, all other accrued or vested or, earned but deferred compensation, rights, options or other benefits which

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may be owed to a Participant upon or following termination, including but not limited to accrued Paid-Time-Off, vacation or sick pay, amounts or benefits payable under any bonus or other compensation plans, stock option plan, stock ownership plan, stock purchase plan, life insurance plan, health plan, disability plan or similar or successor plan, except as provided in Section 4.6 below.

4.5 LIMITATIONS ON PAYMENTS. In the event it shall be determined that any Payment would be subject to the Excise Tax, then such Payment shall be reduced to one dollar below the Safe Harbor Amount.

(a) Definitions. The following terms shall have the following meanings for purposes of this Section 4.5.

(i) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(ii) A "Payment" shall mean any payment or distribution in the nature of compensation to or for the benefit of a Participant, whether paid or payable pursuant to this Plan or otherwise.

(iii) The "Safe Harbor Amount" means the maximum Parachute Value, as defined under Section 280G(b)(2) of the Code, of all Payments that a Participant can receive without any Payments being subject to the Excise Tax.

(iv) A "Separation Payment" shall mean a Payment paid or payable pursuant to this Plan (disregarding this Section 4.5).

4.6 CONDITIONS TO PAYMENT OBLIGATIONS.

(a) Except as provided in Section 4.6(b) below, the

obligations of the Corporation and the Employers to pay the Separation Benefits shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation or any of its Subsidiaries may have against any Participation.

(b) Notwithstanding any other provision of this Plan or any other plan, program, practice or policy of any Employer: (i) any cash Separation Benefits that a Participant becomes entitled to receive under Section 4.3(b) of this Plan shall be reduced (but not below zero) by the aggregate amount of cash severance, separation, or similar benefits that the Participant may be entitled to receive under any other plan, program, policy, contract, agreement or arrangement of any Employer (including without limitation the Xcel Energy Inc. Senior Executive Severance Policy), except to the extent the Participant waives his or her right thereto,

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and by the aggregate amount of such cash benefits or pay in lieu of notice that the Participant may be entitled to receive under applicable law; and (ii) any continued benefits that a Participant becomes entitled to receive under Section 4.3(c) of this Plan shall be provided concurrently (not consecutively) with any such benefits that such Participant may be entitled to receive under any other plan, program, policy, contract, agreement or arrangement of any Employer or applicable law (including without limitation the health continuation coverage required by Section 4980B of the Code and Section 601 et seq. of the Employee Retirement Income Security Act of 1974, as amended). In no event shall a Participant be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to a Participant under any of the provisions of this Plan, nor shall the amount of any payment hereunder be reduced by any compensation earned by a Participant as a result of employment by another employer, except as specifically provided in Section 4.3(c) (i).

ARTICLE V PARTICIPATING EMPLOYERS

This Plan may be adopted by any Subsidiary of the Corporation. Upon such adoption, the Subsidiary shall become an Employer hereunder and the provisions of the Plan shall be fully applicable to the Employees of that Subsidiary who are Participants pursuant to Section 3.1.

ARTICLE VI SUCCESSOR TO CORPORATION

This Plan shall bind any successor of the Corporation, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Corporation would be obligated under this Plan if no succession had taken place.

In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Corporation shall require such successor expressly and unconditionally to assume and agree to perform the Corporation's obligations under this Plan, in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place. The term "Corporation," as used in this Plan, shall mean the Corporation as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan.

ARTICLE VII DURATION, AMENDMENT AND TERMINATION

7.1 DURATION. The Employer reserves the right to terminate this plan at any time. Notwithstanding the foregoing, this Plan shall continue in full force

and effect and shall not terminate or expire until after all Participants who become entitled to any payments hereunder shall have received such payments in full and all payments and adjustments required to be made pursuant to Section 4.5 have been made.

7.2 AMENDMENT. Except as provided in Section 7.1, the Plan shall not be subject to amendment, change, substitution, deletion, revocation or termination in any respect

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which adversely affects the rights of Participants; provided, that this Plan may be amended if and to the extent necessary to permit the use of the "pooling of interests" accounting method with respect to the Combination (assuming that such accounting method is otherwise applicable to the Combination).

7.3 FORM OF AMENDMENT. The form of any amendment of the Plan shall be a written instrument signed by a duly authorized officer or officers of the Corporation, certifying that the amendment has been approved by the Board.

ARTICLE VIII MISCELLANEOUS

8.1 EMPLOYMENT STATUS. This Plan does not constitute a contract of employment or impose on the Participant or the Participant's Employer any obligation to retain the Participant as an Employee, to change the status of the Participant's employment, or to change the Corporation's policies or those of its Subsidiaries regarding termination of employment.

8.2 CLAIM PROCEDURE. If an Employee or former Employee makes a written request alleging a right to receive benefits under this Plan or alleging a right to receive an adjustment in benefits being paid under the Plan, the Corporation shall treat it as a claim for benefit. All claims for benefit under the Plan shall be sent to the Human Resources Department of the Corporation and must be received within 30 days after termination of employment. If the Corporation determines that any individual who has claimed a right to receive benefits, or different benefits, under the Plan is not entitled to receive all or any part of the benefits claimed, it will inform the claimant in writing of its determination and the reasons therefor in terms calculated to be understood by the claimant. The notice will be sent within 90 days of the claim unless the Corporation determines additional time, not exceeding 90 days, is needed. The notice shall make specific reference to the pertinent Plan provisions on which the denial is based, and describe any additional material or information is necessary. Such notice shall, in addition, inform the claimant what procedure the claimant should follow to take advantage of the review procedures set forth below in the event the claimant desires to contest the denial of the claim. The claimant may within 90 days thereafter submit in writing to the Corporation a notice that the claimant contests the denial of his or her claim by the Corporation and desires a further review. The Corporation shall within 60 days thereafter review the claim and authorize the claimant to appear personally and review pertinent documents and submit issues and comments relating to the claim to the persons responsible for making the determination on behalf of the Corporation. The Corporation will render its final decision with specific reasons therefor in writing and will transmit it to the claimant within 60 days of the written request for review, unless the Corporation determines additional time, not exceeding 60 days, is needed, and so notifies the Participant. If the Corporation fails to respond to a claim filed in accordance with the foregoing within 60 days or any such extended period, the Corporation shall be deemed to have denied the claim.

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8.3 VALIDITY AND SEVERABILITY. The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.4 GOVERNING LAW. The validity, interpretation, construction and performance of the Plan shall in all respects be governed by the laws of Minnesota, without reference to principles of conflict of law, except to the extent pre-empted by federal law.

8.5 WITHHOLDING. The Corporation may withhold from any and all amounts payable under this Plan all federal, state, local and foreign taxes that may be required to be withheld by applicable laws or regulations.

XCEL ENERGY INC.

11/12/02

/s/ Cynthia L. Leshner

By: Cynthia L. Leshner
Chief Administrative Officer

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EXHIBIT A

FORM OF RELEASE AGREEMENT

THIS AGREEMENT is entered into this ___ day of _____, _____ by and between NRG Energy, Inc. and Xcel Energy Inc. (the "Company"), a Delaware corporation, and employee name (the "Participant").

WHEREAS, the Participant has become entitled to receive Separation Benefits as defined in the Xcel Energy Business Unit Vice President Severance Plan (the "Plan") on the condition that the Participant enter into this Release Agreement (the "Agreement"); and

WHEREAS, the Participant freely and willfully desires to enter into this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and other valuable consideration, the Participant, intending to be legally bound, agrees as follows:

1. Acknowledgment.

(a) The Participant understands and agrees that, in addition to the Participant's below-described exposure to the Company's Confidential Information or Trade Secrets, the Participant may, in her capacity as an employee, at times have met with the Company's customers and suppliers, and that as a consequence of using and associating with the Company's name, goodwill, and professional reputation, the Participant has been in a position to develop personal and professional relationships with the Company's past, current, and prospective customers and suppliers. The Participant further acknowledges that during the course and as a result of employment by the Company, the Participant may have been provided certain specialized training or know-how. The Participant understands and agrees that this goodwill and reputation, as well as the Participant's knowledge of Confidential Information or Trade Secrets and specialized training and know-how, could be used unfairly in competition against the Company.

(b) Accordingly, the Participant agrees that during the period of one year after the Date of Termination (the "Covenant Period"), the Participant shall not:

(i) Directly or indirectly own, manage, consult, associate with, operate, join, work for, control or participate in the ownership, management, operation or control of, or be connected in any manner with, any business (whether in corporate, proprietorship, or partnership form or otherwise), as more than a 10% owner in such business or member of a group controlling such business, which is engaged in any activity which competes with the business of the Company as conducted one (1) year prior to (and up through) the date of the Participant's termination of employment with the Company or which will compete with any proposed business activity of the Company in the planning stage on such date of termination. The Participant and the Company agree that this provision is reasonably enforced as to any geographic area.

(ii) Directly or indirectly solicit, service, contract with, or otherwise engage any past (one (1) year prior), existing or prospective customer, client, or account who then has a relationship with the Company for current or prospective business on behalf of an individual or entity that is engaged in a competing business, or on the Participant's own behalf for a competing business;

(iii) Cause or attempt to cause any existing or prospective customer, client, or account, who then has a relationship with the Company for current or prospective business, to divert, terminate, limit or in any manner modify, or fail to enter into any actual or potential business relationship with the Company; and the Participant and the Company agree that this clause (iii) is reasonably enforced with reference to any geographic area applicable to such relationships with the Company; and

(iv) Directly or indirectly solicit, employ or conspire with others to employ any of the Company's employees; the term "employ" for purposes of this clause (iv) meaning to enter into an arrangement for services as a full-time or part-time employee, independent contractor, consultant, agent or otherwise; and the Participant and the Company agree that this clause (iv) is reasonably enforced as too any geographic area.

(c) The Participant further agrees to inform any new employer or other person or entity with whom the Participant enters into a business relationship during the Covenant Period, before accepting such employment or entering into such a business relationship, of the existence of this Agreement and give such employer, person or other entity a copy of this Agreement.

2. RETURN OF PROPERTY. The Participant agrees that upon the Date of Termination, the originals and all copies of any and all documents (including computer data, diskettes, programs, or printouts) that contain any customer information, financial information, product information, or other information that in any way relates to the Company, its products or services, its clients, its suppliers, or other aspects of its business that are in the Participant's possession shall be immediately returned to the Company. The Participant further agrees to not retain any summary of such information. The Participant agrees to return any of the Company's equipment in his or her possession.

3. CONFIDENTIAL INFORMATION/TRADE SECRETS.

(a) The Participant acknowledges that during the course and as a result of his or her employment, the Participant may receive or otherwise have access to, or contribute to the production of, Confidential Information or Trade Secrets. "Confidential Information or Trade Secrets" means information that is

proprietary to or in the unique knowledge of the Company (including information discovered or developed in whole or in part by the Participant); the Company's business methods and practices; or information that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. It includes, among other things, strategies, procedures, manuals, confidential reports, lists of clients,

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customers, suppliers, past, current or possible future products or services, and information concerning research, development, accounting, marketing, selling or leases and the prices or charges paid by the Company's customers to the Company, or by the Company to its suppliers. The Participant acknowledges her continuing agreement to abide by the terms of the Company's Code of Conduct.

(b) The Participant further acknowledges and appreciates that any Confidential Information or Trade Secret constitutes a valuable asset of the Company and that the Company intends any such information to remain secret and confidential. The Participant therefore specifically agrees that except to the extent required by the Participant's duties to the Company or as permitted by the express written consent of the Board of Directors, the Participant shall never, either during employment with the Company or at any time thereafter, directly or indirectly use, discuss or disclose any Confidential Information or Trade Secrets of the Company or otherwise use such information to his or her own or a third party's benefit.

3A. NON-DISPARAGEMENT. The Participant agrees to refrain from making any statements or communications which in any way allege that the Company acted in any manner which is wrongful, tortious or unlawful or which gave rise to any liability or fault. The Participant further agrees the he or she will not disparage the Company or its employees in any manner. The Company agrees that neither it, or its agents or employees will disparage the participant in any manner.

4. CONSIDERATION. The Participant and the Company agree that the above provisions of this Agreement are reasonable and necessary for the protection of the Company and its business. In exchange for the Participant's agreement to be bound by the terms of this Agreement, the Company has provided the Participant the Severance Benefits under the Plan. The Participant accepts and acknowledges the adequacy of such consideration for this Agreement.

5. REMEDIES FOR BREACH. The Participant acknowledges that a breach of the above provisions of this Agreement will cause the Company irreparable harm that would not be fully remedied by monetary damages. Accordingly, the Participant agrees that the Company shall, in addition to the requirement to return the Severance Benefits and any other Consideration to the Company and any relief afforded by law, be entitled to injunctive relief. The Participant agrees that both damages at law and injunctive relief shall be proper modes of relief and are not to be considered alternative remedies.

6. RELEASE.

(a) In consideration of the Separation Benefits, the Participant does hereby fully and completely release and waive any and all claims, complaints, causes of action or demands of whatever kind which the Participant has or may

have against the Company, Xcel Energy Inc. or NRG Energy, Inc. and their predecessors, successors, subsidiaries and affiliates and all officers, employees and agents of those persons and companies arising out of any actions, conduct, decisions, behavior or events occurring to the date of his or her execution of this Release of which the Participant is or has been made aware or has been reasonably put on notice.

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(b) The Participant understands and accepts that this release specifically covers but is not limited to any and all claims, complaints, causes of action or demands of whatever kind which the Participant has or may have against the above-referenced released parties relating in any way to the terms, conditions and circumstances of his or her employment to date, whether based on statutory, regulatory or common law claims for employment discrimination, including but not limited to discrimination on the basis of race, color, sex, age, national origin, handicap, religion or reprisal discrimination, arising under the Federal Civil Rights Act of 1964, as amended, the 1866 Civil Rights Act, 42 U.S.C 1981, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act Executive Order 11246, the Age Discrimination in Employment Act, as amended, the Colorado Civil Rights Act, Minnesota Human Rights Act, or any other administrative order, federal or state statute or local ordinance, wrongful discharge, breach of contract, breach of any express or implied promise, misrepresentation, fraud, reprisal, retaliation, breach of public policy, infliction of emotional distress, defamation, promissory estoppel, invasion of privacy, negligence, or any other theory, whether legal or equitable; except that this release will not impair any existing rights the Participant may have under any presently existing pension, retirement or employee benefit plan of the Company.

(c) By signing below, the Participant acknowledges that he or she fully understands and accepts the terms of this release, and represents and agrees that his or her signature is freely, voluntarily and knowingly given and that he or she has been provided a full opportunity to review and reflect on the terms of this release for at least twenty-one (21) days and to seek the advice of legal counsel of his or her choice, which advice the Participant has been encouraged to obtain.

7. THE PARTICIPANT'S ACKNOWLEDGMENT OF REVIEW; RIGHT TO REVOKE.

(a) The Participant represents that the Participant has carefully read and fully understands all provisions of this Agreement and that the Participant has had a full opportunity to review this Agreement before signing and to have all the terms of this Agreement explained to him or her by counsel.

(b) This Agreement may be revoked by the Participant by written notice given to

Scott Davido
Senior Vice President and General Counsel
NRG Energy, Inc.
901 Marquette Avenue
Suite 2300
Minneapolis, MN 55402, or

Gary Johnson
Vice President and General Counsel
Xcel Energy Inc.
800 Nicollet Mall
Suite 3000
Minneapolis, MN 55402

Within fifteen (15) business days after being signed by the Participant.

8. GENERAL PROVISIONS. The Participant and the Company acknowledge and agree as follows:

(a) This Agreement contains the entire understanding of the parties with regard to all matters contained herein. There are no other agreements, conditions, or representations, oral or written, express or implied, with regard to such matters;

(b) This Agreement may be amended or modified only by a writing signed by both parties;

(c) Waiver by either the Company or the Participant of a breach of any provision, term or condition hereof shall not be deemed or construed as a further or continuing waiver thereof or a waiver of any breach of any other provision, term or condition of this Agreement;

(d) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "the Company" shall mean the Company and its affiliates or assigns and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise. No assignment of this Agreement shall be made by the Participant, and any purported assignment shall be null and void;

(e) If any court finds any provision or part of this Agreement to be unreasonable, in whole or in part, such provision shall be deemed and construed to be reduced to the maximum duration, scope or subject matter allowable under applicable law. Any invalidation of any provision or part of this Agreement will not invalidate any other part of this Agreement;

(f) This Agreement will be construed and enforced in accordance with the laws and legal principles of the State of Minnesota. The Participant consents to the jurisdiction of the Minnesota courts for the enforcement of this Agreement; and

(g) This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

THIS AGREEMENT IS INTENDED TO BE A LEGALLY BINDING DOCUMENT FULLY ENFORCEABLE IN ACCORDANCE WITH ITS TERMS. IF IN DOUBT, SEEK COMPETENT LEGAL ADVICE BEFORE SIGNING.

First MI Last

Date

NRG ENERGY, INC.

By -----

Date

Its -----

Xcel Energy Inc.

By -----

Date

Its -----

The Participant acknowledges that he or she has received a copy of this Agreement.

NRG EXECUTIVE OFFICER AND
KEY PERSONNEL

SEVERANCE PLAN

WILLIAM PIEPER

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NRG ENERGY, INC.
EXECUTIVE OFFICER AND KEY PERSONNEL SEVERANCE PLAN

ARTICLE 1. ESTABLISHMENT, TERM, AND PURPOSE

1.1 ESTABLISHMENT OF THE PLAN. NRG Energy, Inc., (hereinafter referred to as the "Company"), hereby establishes a seVerance plan to be known as the NRG Executive Officer and Key Personnel Severance Plan (the "Plan"). The Plan provides severance benefits to certain executive officers and key personnel (the "Participants") of the Company upon a termination of employment from the Company, including termination of employment as a result of a Change in Control of the Company. The Plan is intended to supersede any and all plans, programs, or agreements providing for severance-related payments. This specifically includes, but is not limited to, the NRG and NSP Employment Agreements for Executive Officers which the Company has previously terminated.

1.2 TERM OF THE PLAN. This plan shall be effective on the Effective Date and shall remain in effect until the third anniversary of the Effective Date. This plan shall thereafter automatically be renewed for successive one-year terms each commencing on an Effective Date anniversary and ending on the day

immediately preceding the succeeding Effective Date anniversary. Notwithstanding the foregoing, the Company may at any time and in its sole discretion terminate this Plan at the end of the initial term or any renewal term by giving the Participant six (6) months written notice prior to the end of a term.

1.3 PURPOSE OF THE PLAN. The purpose of the Plan is to provide certain executive officers and key personnel of the Company financial security in the event of a termination of employment from the Company, including termination of employment as a result of a Change in Control of the Company.

ARTICLE 2. DEFINITIONS

Whenever used in this Plan, the following terms shall have the meanings set forth below:

2.1 "BASE SALARY" means an amount equal to the Participant's base annual salary as of the date of a termination. For this purpose, "Base Salary" shall not include bonuses, long-term incentive compensation, or any remuneration other than base annual salary.

2.2 "BENEFICIAL OWNER" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.3 "BENEFICIARY" means the persons or entities designated or deemed designated by the Participant pursuant to Section 13.1 hereof.

2.4 "BOARD" means the Board of Directors of the Company.

2.5 "CAUSE" shall mean the occurrence of any one or more of the following events:

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- (a) The willful (as defined in 2.5[c]) and continued failure by the Participant to substantially perform his normal duties (other than any such failure resulting from the Participant's Disability), after a written demand for substantial performance, signed by the CEO or the Participant's immediate supervisor, is delivered to the Participant, that identifies the manner in which the Participant has not substantially performed his duties, and the Participant has failed to remedy the situation within thirty (30) business days of receiving such notice; or
- (b) The Participant's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony; or the Participant's violation of the Company Code of Conduct; or
- (c) The engaging by the Participant in willful, reckless or grossly negligent conduct materially and demonstrably injurious to the Company. However, no act, or failure to act on the Participant's part, shall be considered "willful, reckless or grossly negligent" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

2.6 "CODE" means the United States Internal Revenue Code of 1986, as amended.

2.7 "CHANGE IN CONTROL" means a Change in Control as defined in the NRG Energy, Inc. 2000 Long-Term Incentive Compensation Plan, which may be amended

from time to time as directed by the Board of Directors.

2.8 "COMMITTEE" means the Compensation Committee of the Board, or any other committee appointed by the Board to perform the functions of the Compensation Committee.

2.9 "COMPANY" means NRG Energy, Inc., a Delaware corporation (including any and all subsidiaries), or any successor thereto as provided in Article 12 herein.

2.10 "DISABILITY" means the definition provided in the NRG Energy, Inc. 2000 Long-Term Incentive Compensation Plan.

2.11 "EFFECTIVE DATE" means January 15, 2001.

2.12 "EFFECTIVE DATE OF TERMINATION" means the date on which a termination occurs which triggers the payment of Severance Benefits or Change in Control Severance Benefits hereunder.

2.13 "EXCHANGE ACT" means the United States Securities Exchange Act of 1934, as amended.

2.14 "GOOD REASON" means, without the Participant's express written consent, the occurrence of any one or more of the following:

(a) Any material reduction in the Participant's Base Salary or Targeted Bonus Opportunity below the amount in effect as of the Change in Control Effective Date (including all increases following the Change in Control Effective Date).

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(b) Any significant reduction in the Participant's benefits package, except in the case of a reduction, which similarly applies to all executives on a nondiscriminatory basis.

(c) Any material reduction in the Participant's long-term incentive opportunity with the Company.

(d) Any assignment of new duties that requires the Participant to relocate his domicile more than fifty (50) miles from the Participant's current work location.

(e) Any dissolution or liquidation of the Company.

(f) Any significant reduction or diminution in the duties, responsibilities, or position of the Participant from that in effect, as of the Effective Date (including subsequent increases in duties, responsibilities, or position), provided that the sale of a Company division will not automatically be deemed to result in the significant reduction or diminution in the duties, responsibilities, or position of the Participant without a specific showing of such reduction or diminution.

(g) Any significant increase in responsibility without corresponding compensation.

The Participant's right to terminate employment for Good Reason shall not be affected by the Participant's incapacity due to Disability. The Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason herein.

2.15 "NOTICE OF TERMINATION" shall mean a written notice which shall indicate the specific termination provision in this Plan relied upon, and shall

set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the provision so indicated.

2.16 "PARTICIPANT" means the executive officers (other than the CEO) and key personnel as designated by the CEO.

2.17 "PERSON" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).

2.18 "PLAN" means NRG Executive Officer and Key Personnel Severance Plan.

2.19 "RETENTION PERIOD" means the period of time beginning on the Effective Date of this Plan, and ending on the earlier to occur of: (a) the termination of the Plan; or (b) six (6) months prior to the effective date of a Change in Control. The retention period is only applicable in the event of general severance.

2.20 "RETIREMENT" means retirement as defined in the applicable NRG Energy, Inc. and/or NSP/Xcel programs in which the Participant is eligible, which may be amended from time to time as directed by the Board of Directors.

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2.21 "SEVERANCE BENEFITS" means the payment of severance compensation as provided in Article 4 or 5 herein.

ARTICLE 3. PARTICIPATION

All executive officers and key personnel as defined by CEO shall be eligible to participate in the Plan.

ARTICLE 4. SEVERANCE BENEFITS OTHER THAN UPON CHANGE IN CONTROL

4.1 RIGHT TO SEVERANCE BENEFITS. Subject to the provisions herein, the Participant shall be entitled to receive from the Company Severance Benefits as described in Section 4.2 herein, if, during the Retention Period, the Participant's employment with the Company shall be terminated by the Company without Cause or if the Participant terminates employment:

- (a) within 3 months of a material change or reduction in the Participant's job responsibilities with the Company, unless such action is remedied by the Company promptly upon receipt of written notice thereof from Participant, or
- (b) as a result of a material breach by the Company of the compensation or benefit terms of this Agreement, provided that the Participant has given the Company written notice of, and a reasonable opportunity to cure, such breach.

The Participant shall not be entitled to receive Severance Benefits under Section 4.2 hereof if he is terminated for Cause, or if his employment with the Company ends due to death, Disability, Retirement, or due to a voluntary termination of employment by the Participant.

4.2 DESCRIPTION OF SEVERANCE BENEFITS. In the event that the Participant becomes entitled to receive Severance Benefits, as provided in Section 4.1 herein, the Participant shall receive the following Severance Benefits:

- (a) One and one-half (1.5) time(s) the sum of: (i) the Participant's Base Salary; and (ii) the greater of: (a) the Participant's average annual bonus earned over the two (2) full fiscal years prior to the Effective Date of Termination; or (b) the Participant's target

annual bonus established for the bonus plan year in which the Participant's Effective Date of Termination occurs.

- (b) An amount equal to the Participant's unpaid targeted annual incentive, established for the plan year in which the Participant's Effective Date of Termination occurs, multiplied by a fraction, the numerator of which is the number of days completed in the then existing fiscal year through the Effective Date of Termination, and the denominator of which is three hundred sixty-five (365).
- (c) A net cash payment equivalent to the COBRA rates of the welfare benefits of medical insurance, dental insurance, and group term life insurance for a period of twelve (12) months. This cash payment shall be made in one lump sum (net of applicable withholding) as prospective reimbursement for the participant's COBRA coverage costs for the number of months stated.

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COBRA election and continuation enforced shall be the responsibility of the participant and/or qualified beneficiaries.

In the event the premium cost shall change for all employees of the Company, the cost, likewise, shall change for the Participant in a corresponding manner.

- (d) A cash payment of vacation earned prior to the Effective Date of Termination, but not taken by the Participant.
- (e) Notwithstanding the provisions of the Long-term Incentive and Compensation Plan (including any options granted thereunder) regarding exercisability of options following termination of employment, in the event that the Participant receives general severance benefits under Article 4, options granted under the NRG Energy, Inc. Long-term Incentive and Compensation Plan prior to the termination date will continue to vest in accordance with the existing vesting schedule for a period of two (2) years following the termination date.

4.3 TERMINATION DUE TO DISABILITY. If the Participant's employment is terminated due to Disability during the term of this Plan, the Participant shall receive his Base Salary and accrued vacation through the Effective Date of Termination and continuation of the welfare benefits of medical insurance, dental insurance, and group term life insurance shall be subject to the treatment provided under the applicable disability plan of the Company.

4.4 TERMINATION DUE TO RETIREMENT OR DEATH. If the Participant's employment is terminated by reason of Retirement or death, the Participant or, where applicable, the Participant's Beneficiaries, shall receive the Participant's Base Salary and accrued vacation through the Effective Date of Termination, and continuation of the welfare benefits of medical insurance, dental insurance, and group term life insurance shall be subject to the treatment provided under the applicable retirement plan of the Company.

4.5 TERMINATION FOR CAUSE OR BY THE PARTICIPANT OTHER THAN FOR GOOD REASON. If the Participant's employment is terminated either: (a) by the Company for Cause; or (b) by the Participant other than for Good Reason, the Company shall pay the Participant his unpaid Base Salary and accrued vacation through the Effective Date of Termination, at the rate then in effect, plus all other amounts to which the Participant is entitled under any compensation plans of the Company, at the time such payments are due, and the Company shall have no further obligations to the Participant under this Plan.

4.6 NOTICE OF TERMINATION. Notice of Termination shall communicate any termination by the Company for Cause or by the Participant for Good Reason at least sixty (60) days prior to the date on which such termination shall be effective. The Company can terminate the employment of the Participant with no notice in which case the Company shall provide the Participant with continuation of pay for sixty (60) days.

4.7 FORM AND TIMING OF SEVERANCE BENEFITS. At the discretion of the Company, all cash payments set forth in Section 4.2 shall be made as a continuance of pay net of appropriate

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withholdings, for the defined severance period, or in one (1) lump sum net of appropriate withholdings, within forty-five (45) days after the Effective Date of Termination.

ARTICLE 5. SEVERANCE BENEFITS UPON CHANGE IN CONTROL

5.1 RIGHT TO CHANGE IN CONTROL SEVERANCE BENEFITS. The Participant shall be entitled to receive from the Company Change in Control Severance Benefits, as described in Section 5.2 herein, if there has been a Change in Control of the Company and if, within the six (6) full calendar month period prior to the effective date of a Change in Control, or within twelve (12) calendar months following the effective date of a Change in Control, the Participant's employment with the Company shall end as a result of either an involuntary termination of the Participant's employment by the Company for reasons other than Cause, or by voluntary termination by the Participant for Good Reason.

The Participant shall not be entitled to receive Change in Control Severance Benefits if he is terminated for Cause, or if his employment with the Company ends due to death, Disability, or Retirement, or due to a voluntary termination of employment by the Participant without Good Reason.

5.2 DESCRIPTION OF CHANGE IN CONTROL SEVERANCE BENEFITS. In the event that the Participant becomes entitled to receive Change in Control Severance Benefits, as provided in Section 5.1 herein, the Company shall pay to the Participant and provide him with the following:

- (a) An amount equal to two and one-half (2.5) time(s) the sum of (i) the Participant's Base Salary; and (ii) the greater of: (a) the Participant's average annual bonus earned over the two (2) full fiscal years prior to the Effective Date of Termination; or (b) the Participant's target annual bonus established for the bonus plan year in which the Participant's Effective Date of Termination occurs.
- (b) An amount equal to the Participant's unpaid targeted annual incentive, established for the plan year in which the Participant's Effective Date of Termination occurs, multiplied by a fraction, the numerator of which is the number of days completed in the then existing fiscal year through the Effective Date of Termination, and the denominator of which is three hundred sixty-five (365).
- (c) A cash payment of vacation earned prior to the Effective Date of Termination, but not taken by the Participant.
- (d) A net cash payment equivalent to the COBRA rates of the welfare benefits of medical insurance, dental insurance, and group term life insurance for a period of twelve (12) months. This cash payment shall be made in one lump sum (net of applicable withholding) as prospective reimbursement for the participant's COBRA coverage costs for the number of months stated.

COBRA election and continuation enforced shall be the responsibility of the participant and/or qualified beneficiaries.

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- (e) All outstanding long-term incentive awards shall be subject to the treatment provided under the applicable long-term incentive plan of the Company.

5.3 TERMINATION FOR DISABILITY. Following a Change in Control of the Company, if the Participant's employment is terminated due to Disability during the term of this Plan, the Participant shall receive his Base Salary and accrued vacation through the Effective Date of Termination and continuation of the welfare benefits of medical insurance, dental insurance, and group term life insurance shall be subject to the treatment provided under the applicable disability plan of the Company.

5.4 TERMINATION FOR RETIREMENT OR DEATH. Following a Change in Control of the Company, if the Participant's employment is terminated by reason of his Retirement or death, the Participant or, where applicable, the Participant's Beneficiaries, shall receive the Participant's Base Salary and accrued vacation through the Effective Date of Termination, and continuation of the welfare benefits of medical insurance, dental insurance, and group term life insurance shall be subject to the treatment provided under the applicable retirement plan of the Company.

5.5 TERMINATION FOR CAUSE OR BY THE PARTICIPANT OTHER THAN FOR GOOD REASON OR RETIREMENT. Following a Change in Control of the Company, if the Participant's employment is terminated either: (i) by the Company for Cause; or (ii) by the Participant (other than for Retirement) and other than for Good Reason, the Company shall pay the Participant his full Base Salary and accrued vacation through the Effective Date of Termination, at the rate then in effect, plus all other amounts to which the Participant is entitled under any compensation plans of the Company, at the time such payments are due, and the Company shall have no further obligations to the Participant under this Plan.

5.6 NOTICE OF TERMINATION. Notice of Termination shall communicate any termination by the Company for Cause or by the Participant for Good Reason at least sixty (60) days prior to the date on which such termination shall be effective. The Company can terminate the employment of the Participant with no notice in which case the Company shall provide the Participant with continuation of pay for sixty (60) days.

5.7 FORMS AND TIMING OF CHANGE IN CONTROL SEVERANCE BENEFITS. At the discretion of the Company, all cash payments set forth in Section 5.2 shall be made as a continuance of pay net of appropriate withholdings, for the defined severance period, or in one (1) lump sum net of appropriate withholdings, within forty-five (45) days after the Effective Date of Termination.

ARTICLE 6. EXCISE TAX

6.1 EXCISE TAX EQUALIZATION PAYMENT. In the event that the Participant becomes entitled to severance benefits or any other payment or benefit under this Plan, or under any other agreement or plan of the Company (in the aggregate, the "Total Payments"), if any of the Total Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (or any similar tax that may hereafter be imposed), the Company shall pay to the Participant in cash an additional amount (the "Gross-Up Payment") such that the net amount retained by the Participant after deduction of any Excise Tax upon the Total Payments and any federal, state and local income tax and Excise Tax upon the Gross-Up Payment provided for by this Section 6.1 (including FICA and FUTA), shall be equal to the Total Payments. Such payment shall be made by the Company to the Participant as soon

as practical following the effective date of termination, but in no event beyond forty-five (45) days from such date.

6.2 TAX COMPUTATION. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amounts of such Excise Tax:

- (a) Any other payments or benefits received or to be received by the Participant in connection with a Change in Control of the Company or the Participant's termination of employment (whether pursuant to the terms of this Plan or any other plan, arrangement, or agreement with the Company, or with any person (which shall have the meaning set forth in Section 3(a)(9) of the Securities Exchange Act of 1934, including a "group" as defined in Section 13(d) therein) whose actions result in a Change in Control of the Company or any person affiliated with the Company or such persons) shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel as supported by the Company's independent auditors and acceptable to the Participant, such other payments or benefits (in whole or in part) do not constitute parachute payments, or unless such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;
- (b) The amount of the Total Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of: (i) the total amount of the Total Payments; or (ii) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying clause (a) above); and
- (c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-Up Payment, the Participant shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Participant's residence on the effective date of termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

6.3 SUBSEQUENT RECALCULATION. In the event the Internal Revenue Service adjusts the computation of the Company under Section 6.2 herein so that the Participant did not receive the greatest net benefit, the Company shall reimburse the Participant for the full amount necessary to make the Participant whole, plus a market rate of interest, as determined by the Committee.

ARTICLE 7. OUTPLACEMENT ASSISTANCE

Following a termination of employment in which Severance Benefits or Change in Control Severance Benefits are payable hereunder, the Participant shall be reimbursed by the Company for the costs of all outplacement services obtained by the Participant within the two (2) year period after the Effective Date of Termination; provided, however, that the total reimbursement shall be

limited to an amount equal to \$10,000.

ARTICLE 8. THE COMPANY'S PAYMENT OBLIGATION

8.1 PAYMENT OBLIGATIONS ABSOLUTE. The Company's obligation to make the payments and the arrangements provided for herein shall be absolute and unconditional, and shall not be affected by any circumstances, including, without limitation, any offset, counterclaim, recoupment, defense, or other right which the Company may have against the Participant or anyone else. All amounts payable by the Company hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Company shall be final, and the Company shall not seek to recover all or any part of such payment from the Participant or from whomsoever may be entitled thereto, for any reasons whatsoever.

The Participant shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Plan, and the obtaining of any such other employment shall in no event effect any reduction of the Company's obligations to make the payments and arrangements required to be made under this Plan, except to the extent provided in Sections 4.2(c) and 5.2(d) herein.

8.2 CONTRACTUAL RIGHTS TO BENEFITS. This Plan establishes and vests in the Participant a contractual right to the benefits to which he is entitled hereunder. However, nothing herein contained shall require or be deemed to require, or prohibit or be deemed to prohibit, the Company to segregate, earmark, or otherwise set aside any funds or other assets, in trust or otherwise, to provide for any payments to be made or required hereunder.

ARTICLE 9. WITHHOLDING

The Company shall be entitled to withhold from any amounts payable under this Plan all taxes as legally shall be required (including, without limitation, any United States federal taxes, and any other state, city, or local taxes).

ARTICLE 10. NON-COMPETITION OTHER THAN UPON CHANGE IN CONTROL

10.1 PROHIBITION ON COMPETITION. Unless there has been a Change in Control, the Participant agrees that during the course of the Participant's employment with the Company, without the prior written consent of the Company, and for one (1) year from the date of the Participant's voluntary or involuntary termination of employment with the Company, the Participant shall not:

- (a) Directly or indirectly own, manage, consult, associate with, operate, join, work for, control or participate in the ownership, management, operation or control of, or be connected in any manner with, any business (whether in corporate, proprietorship,

or partnership form or otherwise), as more than a 10% owner in such business or member of a group controlling such business, which is engaged in any activity which competes with the business of the Company as conducted one (1) year prior to (and up through) the date of the Participant's involuntary or voluntary termination of employment with the Company or which will compete with any proposed business activity of the Company in the planning stage on such date of involuntary or voluntary termination. The participant and the Company agree that this provision is reasonably enforced as to any geographic area.

- (b) Directly or indirectly solicit, service, contract with or otherwise engage any past (one year prior), existing or prospective customer, client, or account who then has a relationship with the Company for current or prospective business on behalf of a competitor of the Company, or on the Participant's own behalf for a competing business. The Participant and the Company agree that this provision is reasonably enforced with reference to any geographic area applicable to such relationships with the Company.
- (c) Cause or attempt to cause any existing or prospective customer, client, or account, who then has a relationship with the Company for current or prospective business, to divert, terminate, limit or in any manner modify, or fail to enter into any actual or potential business relationship with the Company. The Participant and the Company agree that this provision is reasonably enforced with reference to any geographic area applicable to such relationships with the Company.
- (d) The Company agrees that the terms "activity which competes with the business of the Company," "competitor of the Company," "competing business," and "relationship with the Company" as used in this Agreement shall be narrowly applied and that it is not the belief of the Company that all companies in the energy business are competitors of the Company. The Company further agrees that this Agreement shall not be so broadly construed that the Participant is prevented during the non-compete period from obtaining all other employment in the energy industry.

10.2 DISCLOSURE OF INFORMATION. The Participant recognizes that he has access to and knowledge of certain confidential and proprietary information of the Company, which is essential to the performance of his duties as an employee of the Company. The Participant will not, during or after the term of his employment by the Company, in whole or in part, disclose such information to any person, firm, corporation, association, or other entity for any reason or purpose whatsoever, nor shall he make use of any such information for his own purposes.

10.3 COVENANTS REGARDING OTHER EMPLOYEES. During the period ending one (1) year following the payment of Severance Benefits or Change in Control Severance Benefits under this Plan, the Participant agrees to not directly or indirectly solicit, employ or conspire with others to employ any of the Company's employees. The term "employ" for purposes of this paragraph means to enter into an arrangement for services as a full-time or part-time employee, independent contractor, consultant, agent or otherwise. The Participant and the Company agree that this provision is reasonably enforced as to any geographic area.

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ARTICLE 11. NON-DISPARAGEMENT

11.1 DISPARAGEMENT. The Participant and the Company, each agrees not to make any disparaging or negative statements about the Company or the Participant, including but not limited to its products, services or management to any person or entity whatsoever, including but not limited to past, present and prospective employees or employers, customers, clients, analysts, investors, vendors and suppliers.

11.2 RELEASE. In order to receive the severance benefits provided under the Plan, the Participant will be required to provide the Company with a release in a form to be provided by the Company. Such release shall fully release the Company and all of its officers, agents, directors, employees, and representatives, any affiliated companies, businesses or entities, and all other persons and entities from each and every legal claim or demand of any kind that the Participant ever had or might have arising out of any action, conduct or

decision taking place during the Participant's employment with the Company, or arising out of the Participant's separation from that employment, whether or not any such claim is known at the time of separation. The Company will provide the Participant with a release in a form provided by the Company. Such release shall release the Participant from each and every legal claim or demand excluding acts of fraud, embezzlement, theft or other acts constituting a felony.

ARTICLE 12. SUCCESSORS AND ASSIGNMENT

12.1 SUCCESSORS TO THE COMPANY. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) of all or substantially all of the business and/or assets of the Company or of any division or subsidiary thereof to expressly assume and agree to perform the Company's obligations under this Plan in the same manner and to the same extent that the Company would be required to perform them if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effective date of any such succession shall be a breach of this Plan and shall entitle the Participant to compensation from the Company in the same amount and on the same terms as he would be entitled to hereunder if he had terminated his employment with the Company voluntarily for Good Reason. Except for the purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Effective Date of Termination.

12.2 ASSIGNMENT BY THE PARTICIPANT. This Plan shall inure to the benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Participant dies while any amount would still be payable to him hereunder had he continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan, to the Participant's Beneficiary. If the Participant has not named a Beneficiary, then such amounts shall be paid to the Participant's devisee, legatee, or other designee, or if there is no such designee, to the Participant's estate.

ARTICLE 13. MISCELLANEOUS

13.1 BENEFICIARIES. The Participant may designate one or more persons or entities as the primary and/or contingent Beneficiaries of any Severance Benefits or Change in Control Severance

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Benefits owing to the Participant under this Plan. Such designation must be in the form of a signed writing acceptable to the Company. The Participant may make or change such designations at any time.

13.2 GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the feminine shall include the masculine; the plural shall include the singular, and the singular shall include the plural.

13.3 SEVERABILITY. In the event any provision of this Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included. Further, the captions of this Plan are not part of the provisions hereof and shall have no force and effect.

13.4 MODIFICATION. No provision of this Plan may be modified, waived, or discharged unless such modification, waiver, or discharge is agreed to in writing and signed by the Participant and by an authorized member of the Committee, or by the respective parties' legal representatives and successors.

13.5 APPLICABLE LAW. To the extent not preempted by the laws of the United

States, the laws of the State of Minnesota, shall be the controlling law in all matters relating to this Plan.

William Pieper

Participant's Name

/s/ WILLIAM PIEPER

Participant's Signature

7/16/01

Date

NRG Energy, Inc.

By: /s/ David H. Peterson

Title: Chairman, President and CEO

Date: 7/17/01

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MEMORANDUM

(XCEL ENERGY LOGO)

Personal and Confidential

Date: 7/16/2002
To: William Pieper
From: David E. Ripka
Reference: NRG Executive Officer and Key Personnel Severance Plan

Dear Bill:

This note is designed to recognize the extraordinary efforts you have given to NRG Energy, Inc. (the "Company") over the past years. You have been key in the management and financial operations of that organization, and your position has placed you in many of the executive level benefits offered by NRG and Xcel Energy Inc.

We value you and wish to count on you for your continued contribution in the financial functions of the Company as it transitions to a wholly-owned subsidiary of Xcel Energy Inc. We also realize that you may be contemplating your role in the new organization, and weighing it against your eligibility for an immediate benefit under Section 4.1 of the NRG Executive Officer and Key Personnel Severance Plan due to a material change and reduction in your job responsibilities that occurred on June 3, 2002. It is with this backdrop that I

am pleased to be able to offer you the opportunity to modify the terms of the Severance Agreement you had entered into under the NRG Executive Officer and Key Personnel Severance Plan (the "Plan").

Our offer to modify the Plan terms is as follows:

We will extend the time frame to assert a "material change or reduction in the Participant's job responsibilities with the Company" for an additional 15 months from the date of this memo. You, in turn, agree to not voluntarily terminate and assert a severance eligibility claim against the Company for a 12-month period. At the end of the 12-month period you will have 3 months to voluntarily terminate and receive severance benefits as calculated under Section 4.2 of the Plan.

The balance of the Severance Agreement will continue to remain in full force and effect, but may in the future be modified with our mutual consent. If you ultimately assert a severance claim and, for any reason, the Company fails or is unable to fulfill its obligation under this agreement on a timely basis, Xcel Energy Inc. agrees to pay any and all sums that have not been paid by the Company (as if

Xcel Energy Inc. were the primary obligor). In addition, we agree not to reduce your base salary, perquisite allowance or target annual bonus during the term of this agreement. We also agree that the severance benefit you will receive if you ultimately assert a claim under this agreement will not be less than the amount you would have received if you had voluntarily terminated as of the date of this letter. I hope you agree that these modifications will allow you a better opportunity to understand your role in Xcel Energy Inc.

If you agree with the modifications we have proposed, please indicate your approval in the space below. Return the signed copy to my attention within the next ten business days. I will have a countersigned copy returned to you. Thank you in advance for your consideration.

Agreed to this 16th day of July, 2002.

By: /s/ WILLIAM PIEPER

Accepted on behalf of NRG Energy, Inc. and Xcel Energy Inc.

By: /s/ Eduard J. McIntyre

(NRG LETTERHEAD)

December 18, 2002

Mr. George P. Schaefer
11 High Mountain Drive
Boonton, NJ 07005

RE: LETTER OF UNDERSTANDING REGARDING SEVERANCE BENEFITS

Dear George:

NRG Energy, Inc. (the "Company") is delighted with your acceptance of the position of Vice President and Treasurer of the Company effective December 18, 2002 (the "Effective Date"). This letter reflects the Company's contractual obligation to you regarding the severance benefits to which you would be entitled in the event of your termination of employment under the circumstances described herein. However, it is not a contract of employment. You will be classified as an "employee at will" and your employment will be subject to termination at any time, with or without cause.

- o In consideration of your acceptance of employment with the Company, your execution of this letter agreement and your performance of the obligations hereunder, the Company will provide you with severance pay under the following circumstances: (i) in the event that the Company involuntarily terminates your employment without Cause (as defined below) or (ii) you resign your employment with Good Reason (as defined below) after the Effective Date, you will receive severance pay in the amount of one times your annual base salary (as in effect on your termination date). The severance pay will be paid in the form of a single lump sum payment, commencing as soon as practicable after your termination date. In addition the Company will pay a lump sum for all costs associated with your health benefits under COBRA for a period of 12 months from the effective date of your separation. The employee will be responsible for making the COBRA payments to the applicable COBRA third party administrator.
- o For purposes of this agreement, the term "Cause" shall mean a termination of your employment which is the result of any of the following: (i) your felony conviction or your plea of "no contest" to a felony; (ii) any fraud by you in connection with the performance of your duties as an employee of the Company; (iii) any act of gross negligence or gross misconduct by you in the performance of your duties as an employee of the Company; (iv) your repeated and continued neglect of your duties as an employee of the Company (other than your neglect resulting from your incapacity due to a physical or mental illness); provided, however, that an event described in item (iv) above shall not constitute Cause unless it is communicated by the Company in writing thirty (30) days from the date the Chief Executive Officer knows of such event and is not corrected by you in a manner which is reasonably satisfactory to the Company within thirty (30) days of your receipt of such written notice from the Company.

George Schaefer
December 18, 2002
Page 2

- o For purposes of this agreement, "Good Reason" shall mean your resignation of your employment as a result of a material and adverse change in the scope of your position that results in (i) duties and responsibilities that are not substantially equivalent to those of the position for which you were hired and (ii) a reporting relationship below executive senior management (i.e., below a CEO, CFO, COO); provided, however, that a change described above shall not constitute Good Reason unless it is communicated by you to the Company in writing thirty (30) days from the date you know of such event and is not corrected by Company in a manner which is reasonably satisfactory to you within thirty (30) days of the Company's receipt of such written notice from you.
- o In the event your employment ends at any time as a result of your resignation without Good Reason, the Company shall pay you the full amount of the accrued but unpaid Salary you have earned through the date of your termination, plus a cash payment (calculated on the basis of your rate of Salary then in effect) for all unused vacation time which you may have accrued as of the date of termination, and any unpaid reimbursement for relocation, business or living expenses to which you are entitled.
- o You will not be entitled to receive severance benefits if you die, retire or become disabled while employed by the Company.
- o Severance payment(s) hereunder shall be an obligation of, and paid by, the Company.
- o All of the Company's obligations under this Agreement and your Employment letter shall be binding upon the Company.
- o The severance benefits specified in this agreement are in lieu of any other severance benefit to which you may be entitled under any other plan or program of the Company including, without limitation, benefits otherwise available under the NRG Energy, Inc. Involuntary Severance Plan.
- o This agreement and all the terms hereof are confidential. You may not disclose, publicize, or discuss any of the terms or conditions hereof with anyone, except your spouse, attorney and/or accountant. In the event that you disclose this agreement or any of its terms or conditions to your spouse, attorney and/or accountant, it shall be your duty to advise said individual(s) of the confidential nature of this agreement and to direct them not to disclose, publicize, or discuss any of the terms or conditions of this agreement with any other person. Violation of this confidentiality provision shall result in immediate termination of this agreement, loss of all severance benefits and, to the extent determined by the Company in its sole and absolute discretion, termination of employment for Cause.

George Schaefer
December 18, 2002
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George, if you are in agreement with the terms of this Letter of Understanding, please indicate your acceptance thereof by signing the enclosed copy of this letter and returning it to me.

Sincerely,

/s/ RICHARD C. KELLY

Richard C. Kelly
President & COO
NRG Energy, Inc.

ACCEPTED:

/s/ GEORGE SCHAEFER

George Schaefer

2/21/03

Date

NRG ENERGY, INC.
SUBSIDIARY LIST

SUBSIDIARY NAME -----	STATE OF INCORPORATION -----
Arthur Kill Power LLC	Delaware
Astoria Gas Turbine Power LLC	Delaware
Bayou Cove Peaking Power, LLC	Delaware
Berrians I Gas Turbine Power LLC	Delaware
Big Cajun I Peaking Power LLC	Delaware
Big Cajun II Unit 4 LLC	Delaware
Brazos Valley Energy LP	Delaware
Brazos Valley Technology LP	Delaware
Brimsdown Power Limited	United Kingdom
Cabrillo Power I LLC	Delaware
Cabrillo Power II LLC	Delaware
Cadillac Renewable Energy LLC	Delaware
Camas Power Boiler Limited Partnership	Oregon
Camas Power Boiler, Inc.	Oregon
Capistrano Cogeneration Company	California
Carolina Energy, Limited Partnership	Delaware
Carquinez Strait Preservation Trust, Inc.	California
Central and Eastern Europe Power Fund, Ltd.	Bermuda
Chickahominy River Energy Corp.	Virginia
Clark Power LLC	Delaware
Cobee Energy Development LLC	Delaware
Cobee Holdings LLC	Delaware
Cogeneration Corporation of America	Delaware
Collinsville Power Joint Venture (unincorporated)	Australia
Commonwealth Atlantic Limited Partnership	Virginia
Commonwealth Atlantic Power LLC	Delaware
Compania Boliviana de Energia Electrica	
S.A.	Canada (Nova Scotia)
Compania Electrica Central Bulo Bulo S.A.	Bolivia
Conemaugh Power LLC	Delaware
Coniti Holding B.V.	Netherlands
Connecticut Jet Power LLC	Delaware
Croatia Power Group	Cayman Islands
Crockett Cogeneration, A California Limited Partnership	California
Csepel Luxembourg (No. 1) S.a.r.l.	Luxembourg
Denver City Energy Associates, L.P.	Delaware
Devon Power LLC	Delaware
Dunkirk Power LLC	Delaware
Eastern Generation Services (India) Private Limited	India
Eastern Sierra Energy Company	California
El Segundo Power II LLC	Delaware
El Segundo Power, LLC	Delaware
Elk River Resource Recovery, Inc.	Minnesota
Empresa de Generacion Electrica Cahua S.A.	Peru
Energia Pacasmayo S.A.	Peru
Energy Investors Fund, L.P.	Delaware
Energy National, Inc.	Utah
Enfield Energy Centre Limited	United Kingdom
Enfield Holdings B.V.	Netherlands
Enfield Operations (UK) Limited	United Kingdom

SUBSIDIARY NAME	STATE OF INCORPORATION
Enfield Operations, L.L.C.s	Delaware
ENI Crockett Limited Partnership	Oregon
Enifund, Inc.	Utah
Enigen, Inc.	Utah
Entrade Holdings B.V.	Netherlands
ESOCO Molokai, Inc.	Utah
ESOCO Orrington, Inc.	Utah
ESOCO Soledad, Inc.	Utah
ESOCO, Inc.	Utah
European Generating S.a.r.l.	Luxembourg
Flinders Coal Pty Ltd	Australia
Flinders Labuan (No. 1) Ltd.	Labuan
Flinders Labuan (No. 2) Ltd.	Labuan
Flinders Osborne Trading Pty Ltd	Australia
Flinders Power Finance Pty Ltd	Australia
Flinders Power Partnership	Australia
Four Hills, LLC	Delaware
Fresh Gas LLC	New York
Gladstone Power Station Joint Venture (unincorporated)	Australia
GPP Investors I, LLC	Delaware
Granite II Holding, LLC	Delaware
Granite Power Partners II, L.P.	Delaware
Gunwale B.V.	Netherlands
Hanover Energy Company	California
Hsin Yu Energy Development Co., Ltd.	Taiwan
Huntley Power LLC	Delaware
Indian River Operations Inc.	Delaware
Indian River Power LLC	Delaware
Inversiones Bulo Bulo S.A.	Bolivia
Itiquira Energetica S.A.	Brazil
Jackson Valley Energy Partners, L.P.	California
James River Cogeneration Company	North Carolina
James River Power LLC	Delaware
Kaufman Cogen LP	Delaware
Keystone Power LLC	Delaware
Kiksis B.V.	Netherlands
Kissimmee Power Partners, Limited Partnership	Delaware
Kladno Power (No. 1) B.V.	Netherlands
Kladno Power (No. 2) B.V.	Netherlands
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany
Kraftwerk Schkopau GbR	Germany
KUSEL Kutahya Seyitomer Elektrik Limited Sirketi	Turkey
Lakefield Junction LLC	Delaware
Lambique Beheer B.V.	Netherlands
Lanco Kondapalli Power Pvt Ltd.	India
Landfill Power LLC	Wyoming
Langage Energy Park Limited	United Kingdom
Long Beach Generation LLC	Delaware
Louisiana Generating LLC	Delaware
Loy Yang Power Management Pty Ltd	Australia (Victoria)
Loy Yang Power Partners	Australia
Loy Yang Power Projects Pty Ltd	Australia (Victoria)
LS Power Management, LLC	Delaware
LSP Batesville Funding Corp.	Delaware

SUBSIDIARY NAME

STATE OF INCORPORATION

SUBSIDIARY NAME	STATE OF INCORPORATION
LSP Batesville Holding, LLC	Delaware
LSP Energy Limited Partnership	Delaware
LSP Energy, Inc.	Delaware
LSP Equipment, LLC	Delaware
LSP-Denver City, Inc.	Delaware
LSP-Hardee Energy, LLC	Delaware
LSP-Kendall Energy, LLC	Delaware
LSP-Nelson Energy, LLC	Delaware
LSP-Pike Energy, LLC	Delaware
Maine Energy Recovery Company	Maine
Meriden Gas Turbines LLC	Delaware
MESI Fuel Station #1 LLC	Delaware
MIBRAG B.V.	Netherlands
MidAtlantic Generation Holding LLC	Delaware
Middletown Power LLC	Delaware
Minnesota Methane Holdings LLC	Delaware
Minnesota Methane II LLC	Delaware
Minnesota Methane LLC	Delaware
Minnesota Waste Processing Company, L.L.C.	Delaware
Mitteldeutsche Braunkohlengesellschaft mbH	Germany
MM Albany Energy LLC	Delaware
MM Biogas Power LLC	Delaware
MM Burnsville Energy LLC	Delaware
MM Corona Energy LLC	Delaware
MM Cuyahoga Energy LLC	Delaware
MM Hackensack Energy LLC	Delaware
MM Hartford Energy LLC	Delaware
MM Lopez Energy LLC	Delaware
MM Lowell Energy LLC	Delaware
MM Nashville Energy LLC	Delaware
MM Phoenix Energy LLC	Delaware
MM Prima Deshecha Energy LLC	Delaware
MM Prince William Energy LLC	Delaware
MM Riverside LLC	Delaware
MM San Bernardino Energy LLC	Delaware
MM San Diego LLC	Delaware
MM SKB Energy LLC	Delaware
MM Spokane Energy LLC	Delaware
MM Tacoma LLC	Delaware
MM Tajiguas Energy LLC	Delaware
MM Taunton Energy LLC	Delaware
MM Tomoka Farms Energy LLC	Delaware
MM Tulare Energy LLC	Delaware
MM West Covina LLC	Delaware
MM Woodville Energy LLC	Delaware
MM Yolo Power LLC	Delaware
MN San Bernardino Gasco I LLC	Delaware
MN San Bernardino Gasco II LLC	Delaware
Montauk-NEO Gasco LLC	Delaware
Montville Power LLC	Delaware
Mt. Poso Cogeneration Company, A California Limited Partnership	California
NEO Albany, L.L.C.	Delaware
NEO Burnsville, LLC	Delaware
NEO California Power LLC	Delaware

SUBSIDIARY NAME	STATE OF INCORPORATION
NEO Chester-Gen LLC	Delaware
NEO Corona LLC	Delaware
NEO Corporation	Minnesota
NEO Cuyahoga, LLC	Delaware
NEO Edgeboro, LLC	Delaware
NEO Erie LLC	Delaware
NEO Fitchburg LLC	Delaware
NEO Freehold-Gen LLC	Delaware
NEO Fresh Kills LLC	Delaware
NEO Ft. Smith LLC	Delaware
NEO Hackensack, LLC	Delaware
NEO Hartford, LLC	Delaware
NEO Landfill Gas Holdings Inc.	Delaware
NEO Landfill Gas Inc.	Delaware
NEO Lopez Canyon LLC	Delaware
NEO Lowell LLC	Delaware
NEO MESI LLC	Delaware
NEO Nashville LLC	Delaware
NEO Phoenix LLC	Delaware
NEO Power Services Inc.	Delaware
NEO Prima Deshecha LLC	Delaware
NEO Prince William, LLC	Delaware
NEO Riverside LLC	Delaware
NEO San Diego LLC	Delaware
NEO SKB LLC	Delaware
NEO Spokane LLC	Delaware
NEO Tacoma, L.L.C.	Delaware
NEO Tajiguas LLC	Delaware
NEO Taunton LLC	Delaware
NEO Toledo-Gen LLC	Delaware
NEO Tomoka Farms LLC	Delaware
NEO Tulare LLC	Delaware
NEO West Covina LLC	Delaware
NEO Woodville LLC	Delaware
NEO Yolo LLC	Delaware
NEO-Montauk Genco LLC	Delaware
NEO-Montauk Genco Management LLC	Delaware
NM Colton Genco LLC	Delaware
NM Mid Valley Genco LLC	Delaware
NM Milliken Genco LLC	Delaware
NM San Timoteo Genco LLC	Delaware
Northbrook Acquisition Corp.	Delaware
Northbrook Carolina Hydro II, LLC	Delaware
Northbrook Carolina Hydro, L.L.C.	Delaware
Northbrook Energy, L.L.C.	Delaware
Northbrook New York LLC	Delaware
Northeast Generation Holding LLC	Delaware
Norwalk Power LLC	Delaware
NR(Gibraltar)	Gibraltar
NRG Affiliate Services Inc.	Delaware
NRG Andean Development Ltda.	Bolivia
NRG Arthur Kill Operations Inc.	Delaware
NRG Ashtabula Generating LLC	Delaware
NRG Ashtabula Operations Inc.	Delaware

SUBSIDIARY NAME	STATE OF INCORPORATION
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NRG Asia Corporate Services Pte Ltd.	Singapore
NRG Asia-Pacific, Ltd.	Delaware
NRG Astoria Gas Turbine Operations Inc.	Delaware
NRG Audrain Generating LLC	Delaware
NRG Audrain Holding LLC	Delaware
NRG Australia Holdings (No. 4) Pty Ltd.	South Wales, Australia
NRG Batesville LLC	Delaware
NRG Bay Shore Operations Inc.	Delaware
NRG Bayou Cove LLC	Delaware
NRG Bourbonnais Equipment LLC	Delaware
NRG Bourbonnais LLC	Illinois
NRG Brazos Valley GP LLC	Delaware
NRG Brazos Valley LP LLC	Delaware
NRG Brazos Valley Technology LP LLC	Delaware
NRG Cabrillo Power Operations Inc.	Delaware
NRG Cadillac Inc.	Delaware
NRG Cadillac Operations Inc.	Delaware
NRG Capital II LLC	Delaware
NRG Capital LLC	Delaware
NRG Caymans Company	Cayman Islands
NRG Caymans-C	Cayman Islands
NRG Caymans-P	Cayman Islands
NRG Central U.S. LLC	Delaware
NRG Collinsville Operating Services Pty Ltd	Australia
NRG ComLease LLC	Delaware
NRG Connecticut Affiliate Services Inc.	Delaware
NRG Connecticut Equipment LLC	Delaware
NRG Connecticut Generating LLC	Delaware
NRG Development Company Inc.	Delaware
NRG Devon Operations Inc.	Delaware
NRG do Brasil Ltda.	Brazil
NRG Dunkirk Operations Inc.	Delaware
NRG Eastern LLC	Delaware
NRG Eastlake Operations Inc.	Delaware
NRG El Segundo Operations Inc.	Delaware
NRG Energy Center Dover LLC	Delaware
NRG Energy Center Harrisburg Inc.	Delaware
NRG Energy Center Minneapolis LLC	Delaware
NRG Energy Center Paxton Inc.	Delaware
NRG Energy Center Pittsburgh LLC	Delaware
NRG Energy Center Rock Tenn LLC	Delaware
NRG Energy Center San Diego LLC	Delaware
NRG Energy Center San Francisco LLC	Delaware
NRG Energy Center Smyrna LLC	Delaware
NRG Energy Center Washco LLC	Delaware
NRG Energy Development B.V.	Netherlands
NRG Energy Development GmbH	Germany
NRG Energy Insurance, Ltd.	Cayman Islands
NRG Energy Jackson Valley I, Inc.	California
NRG Energy Jackson Valley II, Inc.	California
NRG Energy Ltd.	United Kingdom
NRG Energy PL Sp. z o.o.	Poland
NRG Energy, Inc.	Delaware
NRG Equipment Company LLC	Illinois

SUBSIDIARY NAME

STATE OF INCORPORATION

NRG Finance Company I LLC	Delaware
NRG Flinders Operating Services Pty Ltd	Australia
NRG Gila Bend Holdings Inc.	Delaware
NRG Gladstone Operating Services Pty Ltd	Australia
NRG Gladstone Superannuation Pty Ltd	Australia
NRG Granite Acquisition LLC	Delaware
NRG Huntley Operations Inc.	Delaware
NRG Ilion Limited Partnership	Delaware
NRG Ilion LP LLC	Delaware
NRG International Development Inc.	Delaware
NRG International Holdings (No. 2) GmbH	Switzerland

NRG International Holdings GmbH	Switzerland
NRG International II Inc.	Delaware
NRG International III Inc.	Delaware
NRG International LLC	Delaware
NRG International Services Company	Delaware
NRG Kaufman LLC	Delaware
NRG Lakefield Inc.	Delaware
NRG Lakeshore Generating LLC	Delaware
NRG Lakeshore Operations Inc.	Delaware
NRG Latin America Inc.	Delaware
NRG McClain LLC	Delaware
NRG Mesquite LLC	Delaware
NRG Mextrans Inc.	Delaware
NRG MidAtlantic Affiliate Services Inc.	Delaware
NRG MidAtlantic Generating LLC	Delaware
NRG MidAtlantic LLC	Delaware
NRG Middletown Operations Inc.	Delaware
NRG Montville Operations Inc.	Delaware
NRG Nelson Turbines LLC	Delaware
NRG New Jersey Energy Sales LLC	Delaware
NRG New Roads Holdings LLC	Delaware
NRG Newberry Generation LLC	Delaware
NRG North Central Operations Inc.	Delaware
NRG Northeast Affiliate Services Inc.	Delaware
NRG Northeast Generating LLC	Delaware
NRG Northern Ohio Generating LLC	Delaware
NRG Norwalk Harbor Operations Inc.	Delaware
NRG Ohio Ash Disposal LLC	Delaware
NRG Operating Services, Inc.	Delaware
NRG Oswego Harbor Power Operations Inc.	Delaware
NRG PacGen Inc.	Delaware
NRG Pacific Corporate Services Pty Ltd	Australia
NRG Peaker Finance Company LLC	Delaware
NRG Power Marketing Inc.	Delaware
NRG Power Options Inc.	Delaware
NRG Processing Solutions LLC	Delaware
NRG Rockford Acquisition LLC	Delaware
NRG Rockford Equipment II LLC	Illinois
NRG Rockford Equipment LLC	Illinois
NRG Rockford II LLC	Illinois
NRG Rockford LLC	Illinois
NRG Rocky Road LLC	Delaware
NRG Sabine River Works GP LLC	Delaware

SUBSIDIARY NAME

STATE OF INCORPORATION

NRG Sabine River Works LP LLC	Delaware
NRG Saguaro Operations Inc.	Delaware
NRG Services Corporation	Delaware
NRG South Central Affiliate Services Inc.	Delaware
NRG South Central Generating LLC	Delaware
NRG South Central Operations Inc.	Delaware
NRG Sterlington Power LLC	Delaware
NRG Sunnyside Operations GP Inc.	Delaware
NRG Sunnyside Operations LP Inc.	Delaware
NRG Taiwan Holding Company Limited	Taiwan
NRG Telogia Power LLC	Delaware
NRG Thermal LLC	Delaware
NRG Thermal Operating Services LLC	Delaware
NRG Thermal Services LLC	Delaware

NRG Turbines LLC	Delaware
NRG Victoria I Pty Ltd	Australia
NRG Victoria II Pty Ltd	Australia
NRG Victoria III Pty Ltd	Australia
NRG West Coast II LLC	Delaware
NRG West Coast LLC	Delaware
NRG Western Affiliate Services Inc.	Delaware
NRG Woodland Operations LLC	Delaware
NRGenerating (Gibraltar)	Gibraltar
NRGenerating Energy Trading Ltd.	United Kingdom
NRGenerating Holdings (No. 11) B.V.	Netherlands
NRGenerating Holdings (No. 13) B.V.	Netherlands
NRGenerating Holdings (No. 14) B.V.	Netherlands
NRGenerating Holdings (No. 15) B.V.	Netherlands
NRGenerating Holdings (No. 16) B.V.	Netherlands
NRGenerating Holdings (No. 18) B.V.	Netherlands
NRGenerating Holdings (No. 19) B.V.	Netherlands
NRGenerating Holdings (No. 2) GmbH	Switzerland
NRGenerating Holdings (No. 21) B.V.	Netherlands
NRGenerating Holdings (No. 23) B.V.	Netherlands
NRGenerating Holdings (No. 24) B.V.	The Netherlands
NRGenerating Holdings (No. 3) B.V.	Netherlands
NRGenerating Holdings (No. 3) GmbH	Switzerland
NRGenerating Holdings (No. 4) B.V.	Netherlands
NRGenerating Holdings (No. 4) GmbH	Switzerland
NRGenerating Holdings (No. 5) B.V.	Netherlands
NRGenerating Holdings (No. 6) B.V.	Netherlands
NRGenerating Holdings (No. 7) B.V.	Netherlands
NRGenerating Holdings (No. 8) B.V.	Netherlands
NRGenerating Holdings GmbH	Switzerland
NRGenerating II (Gibraltar)	Gibraltar
NRGenerating III (Gibraltar)	Gibraltar
NRGenerating International B.V.	Netherlands
NRGenerating IV (Gibraltar)	Gibraltar
NRGenerating Luxembourg (No. 1) S.a.r.l.	Luxembourg
NRGenerating Luxembourg (No. 2) S.a.r.l.	Luxembourg
NRGenerating Luxembourg (No. 4) S.a.r.l.	Luxembourg
NRGenerating Luxembourg (No. 5) S.a.r.l.	Luxembourg
NRGenerating Luxembourg (No. 6) S.a.r.l.	Luxembourg
NRGenerating Rupali B.V.	Netherlands

SUBSIDIARY NAME

STATE OF INCORPORATION

NRGenerating, Ltd.	United Kingdom
O Brien Biogas (Mazzaro), Inc.	Delaware
O Brien Biogas IV LLC	Delaware
O Brien Cogeneration, Inc. II	Delaware
O Brien Standby Power Energy, Inc.	Delaware
Okeechobee Power I, Inc.	Delaware
Okeechobee Power II, Inc.	Delaware
Okeechobee Power III, Inc.	Delaware
ONSITE Energy, Inc.	Oregon
ONSITE Marianas Corporation	Commonwealth of the Northern Marianas Islands
ONSITE/US Power Limited Partnership No. 1	Oregon
Orrington Waste, Ltd. Limited Partnership	Oregon
Oswego Harbor Power LLC	Delaware
P.T. Dayalistrik Pratama	Indonesia
Pacific Crockett Holdings, Inc.	Oregon
Pacific Generation Company	Oregon
Pacific Generation Development Company	Oregon
Pacific Generation Holdings Company	Oregon
Pacific Generation Resources Company	Oregon
Pacific Orrington Energy, Inc.	Oregon
Pacific-Mt. Poso Corporation	Oregon
Penobscot Energy Recovery Company, Limited Partnership	Maine
Power Operations, Inc.	Delaware

Project Finance Fund III, L.P.	Delaware
Pyro-Pacific Operating Company	California
Reid Gardner Power LLC	Delaware
Rocky Road Power, LLC	Delaware
Rybnik (Gibraltar)	Gibraltar
Rybnik Power B.V.	Netherlands
Saale Energie GmbH	Germany
Saale Energie Services GmbH	Germany
Sachsen Holding B.V.	Netherlands
Saguaro Power Company, a Limited Partnership	California
Saguaro Power LLC	Delaware
San Bernardino Landfill Gas Limited Partnership	California
San Joaquin Valley Energy I, Inc.	California
San Joaquin Valley Energy IV, Inc.	California
San Joaquin Valley Energy Partners I, L.P.	California
Scudder Latin American Power I-C L.D.C.	Cayman Islands, British West Indies
Scudder Latin American Power II-C L.D.C.	Cayman Islands, British West Indies
Scudder Latin American Power II-Corporation A	Cayman Islands, British West Indies
Scudder Latin American Power II-Corporation B	Cayman Islands, British West Indies
Scudder Latin American Power II-P L.D.C.	Cayman Islands, British West Indies
Scudder Latin American Power I-P L.D.C.	Cayman Islands, British West Indies
Servicios Energeticos, S.A	Bolivia
Somerset Operations Inc.	Delaware
Somerset Power LLC	Delaware
South Central Generation Holding LLC	Delaware
Southwest Generation LLC	Delaware
Southwest Power Holdings LLC	Delaware
SRW Cogeneration Limited Partnership	Delaware
Statoil Energy Power/Pennsylvania, Inc.	Pennsylvania
Sterling (Gibraltar)	Gibraltar
Sterling Luxembourg (No. 1) s.a.r.l.	Luxembourg

SUBSIDIARY NAME

STATE OF INCORPORATION

SUBSIDIARY NAME	STATE OF INCORPORATION
Sterling Luxembourg (No. 2) s.a.r.l.	Luxembourg
Sterling Luxembourg (No. 4) s.a.r.l.	Luxembourg
STS Hydropower Ltd.	Michigan
Suncook Energy LLC	Delaware
Sunshine State Power (No. 2) B.V.	Netherlands
Sunshine State Power B.V.	Netherlands
Tacoma Energy Recovery Company	Delaware
Telogia Power Inc.	Delaware
Termo Santander Holding (Alpha), L.L.C.	Delaware
TermoRio S.A.	Brazil
The PowerSmith Cogeneration Project, Limited Partnership	Delaware
Timber Energy Resources, Inc.	Texas
Tosli (Gibraltar) B.V.	Netherlands
Tosli Acquisition B.V.	Netherlands
Turners Falls Limited Partnership	Massachusetts
Vienna Operations Inc.	Delaware
Vienna Power LLC	Delaware
Wainstones Power Limited	United Kingdom
WCP (Generation) Holdings LLC	Delaware
WEB Energy Ltd.	Maritius
West Coast Power LLC	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-62958) and Form S-8 (No. 333-38892) of NRG Energy, Inc. of our report dated March 28, 2003 relating to the consolidated financial statements and financial statements schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
March 28, 2003

EXHIBIT 99.1 - Officer Certification

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, to the best of his knowledge in his capacity as an officer of NRG Energy, Inc., ("the Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that the Annual Report on Form 10-K for the year ended December 31, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NRG ENERGY, INC.

(Registrant)

/s/ RICHARD C. KELLY

Richard C. Kelly
President and Chief Operating Officer

/s/ WAYNE H. BRUNETTI

Wayne H. Brunetti
Chairman and Chief Executive Officer

Date March 31, 2003

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to NRG Energy and will be retained by NRG Energy and furnished to the Securities and Exchange Commission or its staff upon request.