

GenOn Energy, Inc.  
Form 10-Q  
August 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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Commission File Number: 1-16455

# GenOn Energy, Inc.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation  
or Organization)

**76-0655566**  
(I.R.S. Employer Identification No.)

**1000 Main Street,  
Houston, Texas**  
(Address of Principal Executive Offices)

**77002**  
(Zip Code)

**(832) 357-3000**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of August 2, 2012, there were 772,908,115 shares of the registrant's Common Stock, \$0.001 par value per share, outstanding.

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**Glossary of Certain Defined Terms**

ancillary services	services that ensure reliability and support the transmission of electricity from generation sites to customer loads. Such services include regulation service, reserves and voltage support.
Bankruptcy Court	United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division.
baseload generating units	units designed to satisfy minimum baseload requirements of the system and produce electricity at an essentially constant rate and run continuously.
CAISO	California Independent System Operator.
capacity	amount of energy that could have been generated at continuous full-power operation during the period.
CenterPoint	CenterPoint Energy, Inc. and its subsidiaries, on and after August 31, 2002, and Reliant Energy, Incorporated and its subsidiaries, prior to August 31, 2002.
CFTC	U.S. Commodity Futures Trading Commission.
Clean Air Act	Federal Clean Air Act.
Clean Water Act	Federal Water Pollution Control Act.
CO <sub>2</sub>	carbon dioxide.
dark spread	the difference between power prices and the cost to generate electricity with coal.
deactivation	includes retirement, mothballing and long-term protective layup. In each instance, the deactivated unit cannot be currently called upon to generate electricity.
Dodd-Frank Act	the Dodd-Frank Wall Street Reform and Consumer Protection Act.
EBITDA	earnings before interest, taxes, depreciation and amortization.
EPA	United States Environmental Protection Agency.
EPC	engineering, procurement and construction.
EPS	earnings per share.
Exchange Act	Securities Exchange Act of 1934, as amended.
FASB	Financial Accounting Standards Board.
FERC	Federal Energy Regulatory Commission.
GAAP	United States generally accepted accounting principles.
GenOn	GenOn Energy, Inc. (formerly known as RRI Energy, Inc.) and, except where the context indicates otherwise, its subsidiaries, after giving effect to the Mirant/RRI Merger.
GenOn Americas	GenOn Americas, Inc.
GenOn Americas Generation	GenOn Americas Generation, LLC.



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GenOn credit facilities	senior secured term loan and revolving credit facility of GenOn and certain of its subsidiaries.
GenOn Energy Holdings	GenOn Energy Holdings, Inc. (formerly known as Mirant Corporation) and, except where the context indicates otherwise, its subsidiaries.
GenOn Marsh Landing	GenOn Marsh Landing, LLC.
GenOn Mid-Atlantic	GenOn Mid-Atlantic, LLC and its subsidiaries, which include the baseload units at two generating facilities under operating leases.
GenOn North America	GenOn North America, LLC.
intermediate generating units	units designed to satisfy system requirements that are greater than baseload and less than peaking.
IRC	Internal Revenue Code of 1986, as amended.
IRC §	IRC section.
ISO	independent system operator.
ISO-NE	Independent System Operator-New England.
LIBOR	London InterBank Offered Rate.
long-term protective layup	a descriptive term for our plans with respect to the Shawville coal-fired units, including retiring the units from service in accordance with the PJM tariff, maintenance of the units in accordance with the lease requirements and continued payment of the lease rent. While the units are not decommissioned and reactivation remains a technical possibility, we do not expect to make any further investment in environmental controls for the units. Further, reactivation after the long-term protective layup would likely involve numerous new permits and substantial additional investment.
MADEP	Massachusetts Department of Environmental Protection.
MC Asset Recovery	MC Asset Recovery, LLC.
MDE	Maryland Department of the Environment.
Mirant	GenOn Energy Holdings, Inc. (formerly known as Mirant Corporation) and, except where the context indicates otherwise, its subsidiaries.
Mirant/RRI Merger	the merger completed on December 3, 2010 pursuant to the Mirant/RRI Merger Agreement.
Mirant/RRI Merger Agreement	the agreement by and among Mirant Corporation, RRI Energy, Inc. and RRI Energy Holdings, Inc. dated as of April 11, 2010.
Mirant Debtors	GenOn Energy Holdings, Inc. (formerly known as Mirant Corporation) and certain of its subsidiaries.
MISO	Midwest Independent Transmission System Operator.
mothballed	the unit has been removed from service and is unavailable for service, but has been laid up in a manner such that it can be brought back into service with an appropriate amount of notification, typically weeks or months.
MPSC	Maryland Public Service Commission.
MW	megawatt.

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MWh megawatt hour.

NAAQS National Ambient Air Quality Standards.

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net generating capacity	net summer capacity.
NJDEP	New Jersey Department of Environmental Protection.
NOL	net operating loss.
NOV	notice of violation.
NO <sub>x</sub>	nitrogen oxides.
NPDES	national pollutant discharge elimination system.
NRG	NRG Energy, Inc.
NRG Merger	the merger contemplated in the NRG Merger Agreement.
NRG Merger Agreement	the agreement by and among NRG Energy, Inc., Plus Merger Corporation and GenOn Energy, Inc. dated as of July 20, 2012.
NYISO	New York Independent System Operator.
NYMEX	New York Mercantile Exchange.
OCI	other comprehensive income.
OTC	over-the-counter.
PADEP	Pennsylvania Department of Environmental Protection.
peaking generating units	units designed to satisfy demand requirements during the periods of greatest or peak load on the system.
PEPCO	Potomac Electric Power Company.
PG&E	Pacific Gas & Electric Company.
PJM	PJM Interconnection, LLC.
Plan	the plan of reorganization that was approved in conjunction with Mirant Corporation's emergence from bankruptcy protection on January 3, 2006.
PPA	power purchase agreement.
Protective Charter Amendment	the Certificate of Amendment to our Third Restated Certificate of Incorporation dated May 4, 2011.
REMA	GenOn REMA, LLC and its subsidiaries, which include three generating facilities under operating leases.
retirement	the unit has been removed from service and is unavailable for service and not expected to return to service in the future.
RMR	reliability-must-run.
ROC	Risk Oversight Committee.
RRI Energy	RRI Energy, Inc., which changed its name to GenOn Energy, Inc. in connection with the Mirant/RRI Merger.

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RTO	regional transmission organization.
scrubbers	flue gas desulfurization emissions controls.
Securities Act	Securities Act of 1933, as amended.
SO <sub>2</sub>	sulfur dioxide.
Southern Company	The Southern Company.

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spark spread	the difference between power prices and the cost to generate electricity with natural gas.
Stone & Webster	Stone & Webster, Inc.
SWD	surface water discharge.
total margin capture factor	the actual gross margin for a unit from energy, and contracted and capacity divided by the total gross margin from energy, and contracted and capacity that could have been earned by the unit.
VaR	value at risk.
VIE	variable interest entity.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

In addition to historical information, the information presented in this report includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements involve known and unknown risks and uncertainties and relate to our revenues, income, capital structure and other financial items, future events, our future financial performance or our projected business results and our view of economic and market conditions. In some cases, one can identify forward-looking statements by words such as may, will, should, could, objective, projection, forecast, goal, guidance, outlook, expect, intend, seek, plan, think, target, potential or continue or the negative of these terms or comparable words.

Forward-looking statements are only predictions. Actual events or results may differ materially from any forward-looking statement as a result of various factors, which include:

- more stringent (or changes in the application of) environmental laws and regulations (including the cumulative effect of many such regulations) that restrict our ability or render it uneconomic to operate our assets, including regulations related to air emissions, disposal of ash and other byproducts, wastewater discharge and cooling water systems;
- changes in market conditions, including developments in the supply, demand, volume and pricing of electricity and other commodities such as coal and natural gas in the energy markets, including efforts to reduce demand for electricity and to encourage the development of renewable sources of electricity, and the extent and timing of the entry of additional competition in our markets;
- legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the industry of generating, transmitting and distributing electricity (the electricity industry); changes in state, federal and other regulations affecting the electricity industry (including rate and other regulations); changes in tax laws and regulations to which we and our subsidiaries are subject; and changes in, or changes in the application of, other laws and regulations to which we and our subsidiaries and affiliates are or could become subject;
- conflicts between reliability needs and environmental rules, particularly with increasingly stringent environmental restrictions;
- price mitigation strategies employed by ISOs or RTOs that reduce our revenue and may result in a failure to compensate our generating units adequately for all of their costs;
- legal and political challenges to or changes in the rules used to calculate payments for capacity, energy and ancillary services or the establishment of bifurcated markets, incentives or other market design changes that give preferential treatment to new generating facilities over existing generating facilities;

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- the failure of our generating facilities to perform as expected, including outages for unscheduled maintenance or repair;
- our failure to use new or advanced power generation technologies;
- strikes, union activity or labor unrest;
- our ability to develop or recruit capable leaders and our ability to retain or replace the services of key employees;
- weather and other natural phenomena, including hurricanes and earthquakes;
- our failure to provide a safe working environment for our employees and visitors thereby increasing our exposure to additional liability, loss of productive time, other costs and a damaged reputation;

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- hazards customary to the power generation industry, including those listed in this cautionary statement and elsewhere in this report, and the possibility that we may not have adequate insurance to cover losses resulting from such hazards or the inability of our insurers to provide agreed upon coverage;
  
- our ability to execute our plan in respect of our Marsh Landing generating facility, including obtaining and maintaining the governmental authorizations necessary for construction and operation of the generating facility and completing the construction of the generating facility by mid-2013;
  
- our relative lack of geographic diversification of revenue sources resulting in concentrated exposure to the PJM market;
  
- our ability to enter into intermediate and long-term contracts to sell power or to hedge economically our expected future generation of power, and to obtain adequate supplies and deliveries of fuel for our generating facilities, at our required specifications and on terms and prices acceptable to us;
  
- failure to obtain adequate supplies of fuels, including from curtailments of the transportation of fuels;
  
- the cost and availability of emissions allowances;
  
- the curtailment of operations and reduced prices for electricity resulting from transmission constraints;
  
- the potential of additional limitation or loss of our income tax NOLs as a result of an ownership change as defined in IRC § 382;
  
- terrorist activities, cyberterrorism and inadequate cybersecurity, or the occurrence of a catastrophic loss and the possibility that we may not have adequate insurance to cover losses resulting from such hazards or the inability of our insurers to provide agreed upon coverage;
  
- deterioration in the financial condition of our counterparties, including financial counterparties, and the failure of such parties to pay amounts owed to us beyond collateral posted or to perform obligations or services due to us;
  
- poor economic and financial market conditions, including impacts on financial institutions and other current and potential counterparties, and negative impacts on liquidity in the power and fuel markets in which we hedge economically and transact;

- increased credit standards, margin requirements, market volatility or other market conditions that could increase our obligations to post collateral beyond amounts that are expected, including additional collateral costs associated with OTC hedging activities as a result of new or proposed laws, rules and regulations governing derivative financial instruments (such as the Dodd-Frank Act and related pending rulemaking proceedings);
- our inability to access effectively the OTC and exchange-based commodity markets or changes in commodity market conditions and liquidity, including as a result of new or proposed laws, rules and regulations governing derivative financial instruments (such as the Dodd-Frank Act and related pending rulemaking proceedings), which may affect our ability to engage in hedging and proprietary trading activities as expected, or may result in material losses from open positions;
- volatility in our gross margin as a result of changes in the fair value of our derivative financial instruments used in our hedging and proprietary trading activities and volatility in our cash flow from operations resulting from working capital requirements, including collateral, to support our hedging and proprietary trading activities;
- the disposition of pending or threatened litigation, including environmental litigation;

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- our ability to access contractors and equipment necessary to operate and maintain our generating facilities and to design, engineer, procure and construct capital improvements required or deemed advisable;
  
- the inability of our operating subsidiaries to generate sufficient cash to support our operations;
  
- the ability of lenders under our revolving credit facility and the Marsh Landing credit facility to perform their obligations;
  
- our consolidated indebtedness and the possibility that we or our subsidiaries may incur additional indebtedness in the future;
  
- restrictions on the ability of our subsidiaries to pay dividends, make distributions or otherwise transfer funds to us, including restrictions on GenOn Mid-Atlantic and REMA contained in their respective operating lease documents, which may affect our ability to access the cash flows of those subsidiaries to make debt service and other payments;
  
- our failure or inability to comply with provisions of our leases, loan agreements and debt, which may lead to a breach and, if not remedied, result in an event of default thereunder, which could result in such lessors, lenders and debt holders exercising remedies, limit access to needed liquidity and damage our reputation and relationships with financial institutions;
  
- covenants contained in our credit facilities, debt and leases that restrict our current and future operations, particularly our ability to respond to changes or take certain actions that may be in our long-term best interests;
  
- our ability to borrow additional funds and access capital markets; and
  
- the successful and timely completion of the proposed NRG Merger, which could be materially and adversely affected by, among other things, resolving any litigation brought in connection with the proposed NRG Merger, the timing and terms and conditions of required stockholder, governmental and regulatory approvals, and the ability to maintain relationships with employees, customers or suppliers as well as the ability to integrate the businesses and realize cost savings.

Many of these risks, uncertainties and assumptions are beyond our ability to control or predict. All forward-looking statements contained herein are expressly qualified in their entirety by cautionary statements contained throughout this report. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. We undertake no obligation to update publicly or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

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In addition to the discussion of certain risks in Management's Discussion and Analysis of Financial Condition and Results of Operations and the accompanying notes to GenOn's interim financial statements, other factors that could affect our future performance are set forth in our 2011 Annual Report on Form 10-K. Our filings and other important information are also available on our investor relations page at [www.genon.com/investors.aspx](http://www.genon.com/investors.aspx).

### **Certain Terms**

As used in this report, unless the context requires otherwise, we, us, our and GenOn refer to GenOn Energy, Inc. and its consolidated subsidiaries.

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**GENON ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	2011		2011	
	(in millions, except per share data)			
Operating revenues (including unrealized gains (losses) of \$(102), \$(36), \$41 and \$(135), respectively)	\$ 521	\$ 812	\$ 1,242	\$ 1,626
Cost of fuel, electricity and other products (including unrealized (gains) losses of \$40, \$(18), \$83 and \$(38), respectively)	306	390	584	791
<b>Gross Margin (excluding depreciation and amortization)</b>	215	422	658	835
<b>Operating Expenses:</b>				
Operations and maintenance	264	372	572	677
Depreciation and amortization	90	90	178	176
(Gain) loss on sales of assets, net		2	(8)	1
Total operating expenses	354	464	742	854
<b>Operating Loss</b>	(139)	(42)	(84)	(19)
<b>Other Income (Expense), net:</b>				
Interest expense	(85)	(96)	(174)	(205)
Other, net			2	(22)
Total other expense, net	(85)	(96)	(172)	(227)
<b>Loss Before Income Taxes</b>	(224)	(138)	(256)	(246)
Provision for income taxes	4		4	3
<b>Net Loss</b>	\$ (228)	\$ (138)	\$ (260)	\$ (249)
<b>Basic and Diluted EPS:</b>				
Basic EPS	\$ (0.30)	\$ (0.18)	\$ (0.34)	\$ (0.32)
Diluted EPS	\$ (0.30)	\$ (0.18)	\$ (0.34)	\$ (0.32)
Weighted average shares outstanding	774	772	774	771
Effect of dilutive securities				
Weighted average shares outstanding assuming dilution	774	772	774	771

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements



Table of Contents**GENON ENERGY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions)			
<b>Net Loss</b>	\$ (228)	\$ (138)	\$ (260)	\$ (249)
Other Comprehensive Income (Loss), net of tax of \$0:				
Unrealized losses:				
Cash flow hedges interest rate swaps	(16)	(14)	(12)	(11)
Available-for-sale securities				(1)
Reclassifications to net loss:				
Pension and other postretirement benefits actuarial losses, net	2	1	4	2
Pension and other postretirement benefits prior service credit, net	(1)	(1)	(2)	(2)
Other, net	1		1	
<b>Other Comprehensive Loss</b>	(14)	(14)	(9)	(12)
<b>Comprehensive Loss</b>	\$ (242)	\$ (152)	\$ (269)	\$ (261)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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**GENON ENERGY, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	June 30, 2012	December 31, 2011
	(in millions)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,677	\$ 1,668
Funds on deposit	247	422
Receivables, net	341	357
Derivative contract assets	890	999
Inventories	497	563
Prepaid rent and other expenses	139	167
Total current assets	3,791	4,176
Property, plant and equipment, gross	7,628	7,351
Accumulated depreciation and amortization	(1,302)	(1,160)
<b>Property, Plant and Equipment, net</b>	<b>6,326</b>	<b>6,191</b>
<b>Noncurrent Assets:</b>		
Intangible assets, net	45	48
Derivative contract assets	743	733
Deferred income taxes	263	294
Prepaid rent	436	386
Other	414	441
Total noncurrent assets	1,901	1,902
<b>Total Assets</b>	<b>\$ 12,018</b>	<b>\$ 12,269</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 10	\$ 10
Accounts payable and accrued liabilities	846	790
Derivative contract liabilities	614	720
Deferred income taxes	263	294
Other	88	130
Total current liabilities	1,821	1,944
<b>Noncurrent Liabilities:</b>		
Long-term debt, net of current portion	4,267	4,122
Derivative contract liabilities	190	131
Pension and postretirement obligations	252	259
Other	632	696
Total noncurrent liabilities	5,341	5,208
<b>Commitments and Contingencies</b>		
<b>Stockholders Equity:</b>		
Preferred stock, par value \$.001 per share, authorized 125,000,000 shares, no shares issued at June 30, 2012 and December 31, 2011		
Common stock, par value \$.001 per share, authorized 2.0 billion shares, issued 772,898,703 shares and 771,692,734 shares at June 30, 2012 and December 31, 2011, respectively	1	1
Additional paid-in capital	7,457	7,449
Accumulated deficit	(2,423)	(2,163)