

GenOn Energy, Inc.  
Form 10-Q  
August 08, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

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 1, 2011, there were 771,676,980 shares of the registrant's Common Stock, \$0.001 par value per share, outstanding.

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**Glossary of Certain Defined Terms**

AB 32	California's Global Warming Solutions Act.
ancillary services	Services that ensure reliability and support the transmission of electricity from generation sites to customer loads. Such services include regulation service, spinning and non-spinning 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.
CAIR	Clean Air Interstate Rule.
CAISO	California Independent System Operator.
CAMR	Clean Air Mercury Rule.
capacity	Energy that could have been generated at continuous full-power operation during the period.
CARB	California Air Resources Board.
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	Commodity Futures Trading Commission.
Clean Air Act	Federal Clean Air Act.
CO <sub>2</sub>	Carbon dioxide.
CSAPR	Cross-State Air Pollution Rule.
dark spread	The difference between power prices and coal fuel costs.
D.C. Circuit	The United States Court of Appeals for the District of Columbia Circuit.
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.
Exchange Ratio	Right of Mirant Corporation stockholders to receive 2.835 shares of common stock of RRI Energy, Inc. in the Merger.
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 Merger.
GenOn Americas	GenOn Americas, Inc. (formerly known as Mirant Americas, Inc.).
GenOn Americas Generation	GenOn Americas Generation, LLC (formerly known as Mirant 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 Energy Management	GenOn Energy Management, LLC (formerly known as Mirant Energy Trading, LLC).
GenOn Lovett	GenOn Lovett, LLC, owner of the former Lovett generating facility, which was shut down on April 19, 2008, and has been demolished (formerly known as Mirant Lovett, LLC).
GenOn Marsh Landing	GenOn Marsh Landing, LLC (formerly known as Mirant Marsh Landing, LLC).
GenOn Mid-Atlantic	GenOn Mid-Atlantic, LLC (formerly known as Mirant Mid-Atlantic, LLC) and, except where the context indicates otherwise, its subsidiaries.
GenOn North America	GenOn North America, LLC (formerly known as Mirant North America, LLC).
HAP	Hazardous Air Pollutant.
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.
ISO	Independent system operator.
ISO-NE	Independent System Operator-New England.
LIBOR	London InterBank Offered Rate.
MACT	Maximum achievable control technology.
MC Asset Recovery	MC Asset Recovery, LLC.
MDE	Maryland Department of the Environment.
Merger	The merger completed on December 3, 2010 pursuant to the Merger Agreement.
Merger Agreement	The agreement by and among Mirant Corporation, RRI Energy, Inc. and RRI Energy Holdings, Inc. dated as of April 11, 2010.
Mirant	GenOn Energy Holdings, Inc. (formerly known as Mirant Corporation) and, except where the context indicates otherwise, its subsidiaries.
MISO	Midwest Independent Transmission System Operator.
MW	Megawatt.
MWh	Megawatt hour.
NAAQS	National Ambient Air Quality Standards.
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.

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NPDES	National pollutant discharge elimination system.
NYISO	New York Independent System Operator.
NYMEX	New York Mercantile Exchange.
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.
PEDFA	Pennsylvania Economic Development Financing Authority.
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.
REMA	GenOn REMA, LLC and its subsidiaries (formerly known as RRI Energy Mid-Atlantic Power Holdings, LLC).
RGGI	Regional Greenhouse Gas Initiative.
RMR	Reliability-must-run.
RPM	Model utilized by PJM to meet load serving entities' forecasted capacity obligations through a forward-looking commitment of capacity resources.
RRI Energy	RRI Energy, Inc., which changed its name to GenOn Energy, Inc. in connection with the Merger.
RTO	Regional Transmission Organization.
SCR	Selective catalytic reduction emissions controls.
scrubbers	Flue gas desulfurization emissions controls.
SEC	United States Securities and Exchange Commission.
Securities Act	Securities Act of 1933, as amended.
Series A Warrants	Warrants issued by Mirant on January 3, 2006, with an exercise price of \$21.87 and expiration date of January 3, 2011.
Series B Warrants	Warrants issued by Mirant on January 3, 2006, with an exercise price of \$20.54 and expiration date of January 3, 2011.
SO <sub>2</sub>	Sulfur dioxide.
Stone & Webster	Stone & Webster, Inc.
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.
Virginia DEQ	Virginia Department of Environmental Quality.
WCI	Western Climate Initiative.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

In addition to historical information, the information presented in this Form 10-Q 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 terminology such as may, will, should, could, objective, projection, forecast, goal, guidance, outlook, expect, intend, seek, plan, predict, target, potential or continue or the negative of these terms or other comparable terminology.

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:

our ability to integrate successfully the businesses following the Merger or realize cost savings and any other synergies as a result of the Merger;

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 supply and delivery of fuel for our generating facilities, at our required specifications and on terms and prices acceptable to us;

failure to obtain adequate fuel supply, including from curtailments of the transportation of fuel;

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;

deterioration in the financial condition of our 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;

the failure of our generating facilities to perform as expected, including outages for unscheduled maintenance or repair;

hazards customary to the power generation industry 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 failure to utilize new, or advancements in, 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;

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the cost and availability of emissions allowances;

the curtailment of operations and reduced prices for electricity resulting from transmission constraints;

our ability to execute our business plan in California, including entering into new arrangements for sales of capacity, energy and other products from our existing generating facilities;

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;

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our relative lack of geographic diversification of revenue sources resulting in concentrated exposure to the PJM market;

the potential of additional limitation or loss of our income tax NOLs as a result of an ownership change as defined in IRC Section 382;

war, terrorist activities, cyberterrorism and inadequate cybersecurity, or the occurrence of a catastrophic loss;

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;

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 asset management, proprietary trading and fuel oil management activities as expected, or may result in material gains or 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 asset management, proprietary trading and fuel oil management activities and volatility in our cash flow from operations resulting from working capital requirements, including collateral, to support our asset management, proprietary trading and fuel oil management activities;

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, environmental and other laws and regulations to which we and our subsidiaries and affiliates are or could become subject;

more stringent 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;

increased regulation that limits our access to adequate water supplies and landfill options needed to support power generation or that increases the costs of cooling water and handling, transporting and disposing of ash and other byproducts;

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;

the disposition of pending or threatened litigation, including environmental litigation;

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the inability of our operating subsidiaries to generate sufficient cash to support our operations;

the ability of lenders under our revolving 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 to comply with provisions of our operating leases, loan agreements and debt 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; and

our ability to borrow additional funds and access capital markets.

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. 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).

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 2010 Annual Report on Form 10-K.

**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, after giving effect to the Merger.

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	September 30, Three Months Ended 2011	September 30, June 30, 2010	September 30, Six Months Ended 2011	September 30, June 30, 2010
	(in millions, except per share data)			
	(See notes 1 and 2 on the Merger)			
Operating revenues (including unrealized gains (losses) of \$(36) million, \$(231) million, \$(135) million and \$132 million, respectively)	\$ 812	\$ 244	\$ 1,626	\$ 1,124
Cost of fuel, electricity and other products (including unrealized (gains) losses of \$(18) million, \$109 million, \$(38) million and \$120 million, respectively)	393	272	797	479
<b>Gross Margin (excluding depreciation and amortization)</b>	419	(28)	829	645
<b>Operating Expenses:</b>				
Operations and maintenance	371	132	675	298
Depreciation and amortization	88	53	174	104
(Gain) loss on sales of assets, net	2	(1)	1	(3)
Total operating expenses	461	184	850	399
<b>Operating Income (Loss)</b>	(42)	(212)	(21)	246
<b>Other Income (Expense), net:</b>				
Interest expense	(96)	(49)		