GenOn REMA, LLC

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Independent Auditors' Report

The Board of Directors and Member
GenOn Northeast Generation, Inc., Sole Member of GenOn REMA, LLC:

We have audited the accompanying consolidated balance sheets of GenOn REMA, LLC and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, member's equity (deficit) and comprehensive income (loss), and cash flows for the year ended December 31, 2011 (Successor Company), for the period from December 3, 2010 through December 31, 2010 (Successor Company) and for the period from January 1, 2010 through December 2, 2010 (Predecessor Company). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GenOn REMA, LLC and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the year ended December 31, 2011 (Successor Company), for the period from December 3, 2010 through December 31, 2010 (Successor Company) and for the period from January 1, 2010 through December 2, 2010 (Predecessor Company), in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, on December 3, 2010, GenOn Energy, Inc., parent company of GenOn REMA, LLC was acquired by Mirant Corporation in a transaction accounted for as a reverse acquisition under the acquisition method of accounting. As such, the assets and liabilities of GenOn Energy, Inc. were recorded at their respective fair values on December 3, 2010. Relevant fair value adjustments have been pushed down to the post-acquisition financial statements of GenOn REMA, LLC as discussed in note 2 to the consolidated financial statements. Accordingly, the Successor Company's consolidated financial statements prior to December 2, 2010 are not comparable to its consolidated financial statements for periods on or after December 2, 2010.

KPMG LLP

Houston, Texas
April 25, 2012

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GENON REMA, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in thousands)		(in thousands)
Operating revenues	$ 38,691	$ 3,125	$ 32,196
Operating revenues—affiliate	477,122	67,714	547,454
Cost of fuel, electricity and other products	143,982	33,421	241,642
Cost of fuel, electricity and other products—affiliate	106,915	(1,476)	5,277
Gross Margin (excluding depreciation and amortization)	264,916	38,894	332,731
Operating Expenses:			
Operations and maintenance	87,253	14,560	140,108
Operations and maintenance—affiliate	91,649	5,704	99,068
Facilities leases	34,969	2,853	54,861
Depreciation and amortization	60,438	3,895	43,854
Impairment losses	1,490	—	74,293
Gain on sales of assets, net	(4)	—	—
(Gain) loss on sales of assets, net—affiliate	6	—	(6)
Total operating expenses	275,801	27,012	412,178
Operating Income (Loss)	(10,885)	11,882	(79,447)
Other Income (Expense), net:			
Interest expense	(626)	(3)	(1,539)
Interest expense—affiliate	(69,628)	(5,407)	(57,545)
Interest income	23	—	11
Total other expense, net	(70,231)	(5,410)	(59,073)
Income (Loss) Before Income Taxes	(81,116)	6,472	(138,520)
Provision (benefit) for income taxes	542	(147)	21,452
Net Income (Loss)	$ (81,658)	$ 6,619	$ (159,972)

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

GENON REMA, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,680	$ 21,145
Funds on deposit	678	212
Receivables, net	63	5,528
Receivables, net—affiliate	7,894	71,648
Derivative contract assets	—	10,541
Derivative contract assets—affiliate	251	2,919
Inventories	122,019	95,136
Prepaid rent and other expenses	19,806	1,361
Total current assets	179,391	208,490
Property, Plant and Equipment, net	584,879	599,612
Noncurrent Assets:		
Intangible assets, net	1,169	7,151
Other	29,526	27,817
Total noncurrent assets	30,695	34,968
Total Assets	$ 794,965	$ 843,070
LIABILITIES AND MEMBER'S EQUITY (DEFICIT)		
Current Liabilities:		
Current portion of long-term debt	$ 118	$ 110
Accounts payable and accrued liabilities	29,218	49,049
Payables, net—affiliate	22,504	8,790
Subordinated accounts and interest payable, net—affiliate	511,773	433,905
Subordinated interest payable on Note Payable—affiliate	67,656	61,562
Derivative contract liabilities	13,922	47,123
Derivative contract liabilities—affiliate	182	—
Other	2,414	2,671
Total current liabilities	647,787	603,210
Noncurrent Liabilities:		
Derivative contract liabilities	—	13,782
Pension and postretirement obligations	—	34,297
Out-of-market contracts	134,331	141,927
Other	44,017	39,049
Total noncurrent liabilities	178,348	229,055
Subordinated Note Payable—Affiliate	543,563	543,563
Long-term Debt, net of current portion	216	333
Commitments and Contingencies		
Member's Equity (Deficit):		
Common stock; no par value (1,000 shares authorized, issued and outstanding)	—	—
Additional paid-in capital (deficit)	(499,910)	(541,882)
Retained earnings	(75,039)	6,619
Accumulated other comprehensive income	—	2,172
Total member's equity (deficit)	(574,949)	(533,091)
Total Liabilities and Member's Equity (Deficit)	$ 794,965	$ 843,070

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

GENON REMA, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)

	Common Stock	Additional Paid-In Capital (Deficit)	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Member's Equity (Deficit)
			(in thousands)		
Predecessor					
Balance, December 31, 2009	$ —	$ 284,672	$ 22,018	$ (32,850)	$ 273,840
Conversion of intercompany notes to equity	—	6,877	—	—	6,877
Total member's equity before other comprehensive loss					280,717
Net loss	—	—	(159,972)	—	(159,972)
Pension and other postretirement benefits, net of tax of $0	—	—	—	(2,043)	(2,043)
Reclassification of net deferred loss from cash flow hedges into net loss, net of tax of $9 million	—	—	—	13,178	13,178
Total other comprehensive loss					(148,837)
Balance, December 2, 2010[(1)]	—	291,549	(137,954)	(21,715)	131,880
Successor					
Balance, December 3, 2010[(1)]	—	(541,882)	—	—	(541,882)
Total member's deficit before other comprehensive income					(541,882)
Net income	—	—	6,619	—	6,619
Pension and other postretirement benefits, net of tax of $0	—	—	—	2,172	2,172
Total other comprehensive income					8,791
Balance, December 31, 2010	—	(541,882)	6,619	2,172	(533,091)
Contributions from GenOn Energy, Inc	—	798	—	—	798
Total member's deficit before other comprehensive loss					(532,293)
Net loss	—	—	(81,658)	—	(81,658)
Transfer of employee-related benefit obligations, net of tax of $0	—	41,174	—	(2,172)	39,002
Total other comprehensive loss					(42,656)
Balance, December 31, 2011	$ —	$(499,910)	$(75,039)	$ —	$(574,949)

(1) The differences in equity balances at December 2, 2010 and December 3, 2010 are due to the application of push down accounting reflecting the merger of Mirant Corporation and RRI Energy, Inc. (see notes 1 and 2 to these consolidated financial statements).

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

GENON REMA, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in thousands)		(in thousands)
Cash Flows from Operating Activities:			
Net income (loss)	$ (81,658)	$ 6,619	$ (159,972)
Adjustments to reconcile net income (loss) and changes in other operating assets and liabilities to net cash provided by operating activities:			
Depreciation and amortization	60,438	3,895	43,854
Amortization of acquired contracts	(5,552)	2,176	—
Deferred income taxes	—	—	20,626
Net changes in derivative contracts	(33,592)	(4,880)	(24,761)
Impairment losses	1,490	—	74,293
Gain on sales of assets, net	2	—	(6)
Other, net	2,500	180	(89)
Changes in operating assets and liabilities:			
Receivables, net	5,465	(1,208)	6,547
Receivables, net – affiliate	63,754	(44,642)	19,248
Inventories	(29,165)	7,653	(5,348)
Prepaid lease	(18,185)	—	1,437
Other assets	(1,927)	(193)	(9,974)
Accounts payable and accrued liabilities	(24,900)	1,834	1,877
Payables, net – affiliate	13,714	8,790	—
Subordinated accounts and interest payable, net – affiliate	77,868	17,567	123,259
Subordinated interest payable on Note Payable – affiliate	6,094	4,340	(21,005)
Other liabilities	8,325	(1,436)	4,218
Total adjustments	126,329	(5,924)	234,176
Net cash provided by operating activities	44,671	695	74,204
Cash Flows from Investing Activities:			
Capital expenditures	(36,354)	(2,219)	(21,724)
Purchases of emissions allowances – affiliate	(332)	—	(7,280)
Restricted deposits	(466)	503	826
Other, net	16	—	78
Net cash used in investing activities	(37,136)	(1,716)	(28,100)
Cash Flows from Financing Activities:			
Proceeds from notes payable – affiliate	—	—	20,000
Payments on notes payable – affiliate	—	—	(36,191)
Proceeds from (payments on) subordinated working capital facility payable – affiliate	—	—	(25,809)
Net cash used in financing activities	—	—	(42,000)
Net Increase (Decrease) in Cash and Cash Equivalents	7,535	(1,021)	4,104
Cash and Cash Equivalents, beginning of period	21,145	22,166	18,062
Cash and Cash Equivalents, end of period	$ 28,680	$ 21,145	$ 22,166
Supplemental Disclosures:			
Cash paid for interest to affiliate, net of amounts capitalized	$ 45,006	$ —	$ 68,787
Cash paid for interest to third parties	353	3	102
Cash refunds received for income taxes, net	3,690	—	656
Supplemental Disclosures for Non-Cash Investing and Financing Activities:			
Transfer of employee-related benefit obligations	39,002	—	—
Conversion of intercompany interest payable to equity	798	—	—
Contribution from affiliate of subordinated accounts payable to affiliate	—	—	6,877

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Accounting and Reporting Policies

Background

"REMA" refers to GenOn REMA, LLC (REMA LLC), a Delaware limited liability company, and its consolidated subsidiaries. "GenOn" refers to GenOn Energy, Inc. and its consolidated subsidiaries. "GenOn Energy" refers to GenOn Energy, Inc. REMA LLC is a direct subsidiary of GenOn Northeast Generation, Inc. and an indirect subsidiary of GenOn Energy.

REMA provides energy, capacity, ancillary and other energy services to wholesale customers in competitive energy markets in the United States through ownership and operation of, and contracting for, power generation capacity. The majority of its sales to third parties are through GenOn (affiliates). REMA owns or leases interests in 17 generating facilities in Pennsylvania and New Jersey with net electric generating capacity of 3,419 megawatts (MW). See note 10 for a discussion of generating facilities that REMA expects to deactivate in 2015.

Merger of Mirant and RRI Energy

On December 3, 2010, Mirant Corporation (Mirant) and RRI Energy, Inc. completed the merger contemplated by the Merger Agreement dated April 11, 2010 (the Merger). "RRI Energy" refers to RRI Energy, Inc. and its consolidated subsidiaries. Upon completion of the Merger, RRI Energy Holdings, Inc., a direct and wholly-owned subsidiary of RRI Energy merged with and into Mirant, with Mirant continuing as the surviving corporation and a wholly-owned subsidiary of RRI Energy. Each of Mirant and RRI Energy received legal opinions that the Merger qualified as a tax-free reorganization under the Internal Revenue Code of 1986, as amended (IRC). Upon the closing of the Merger, each issued and outstanding share of Mirant common stock, including grants of restricted common stock, automatically converted into 2.835 shares of common stock of RRI Energy based on the exchange ratio as defined in the Merger Agreement. Additionally, upon the closing of the Merger, RRI Energy was renamed GenOn. Mirant stock options and other equity awards converted upon completion of the Merger into stock options and equity awards with respect to GenOn common stock, after giving effect to the exchange ratio.

During 2011, REMA recorded revisions to the provisional allocation of the purchase price at December 3, 2010 and accordingly retroactively revised amounts in its consolidated balance sheet at December 31, 2010 and consolidated statement of member's equity (deficit) and comprehensive income (loss) at December 3, 2010 and December 31, 2010. See note 2.

Basis of Presentation

Basis of Presentation. The consolidated financial statements of REMA LLC and its wholly-owned subsidiaries have been prepared in accordance with United States generally accepted accounting principles (GAAP) from records maintained by REMA. The consolidated financial statements include all revenues and costs directly attributable to REMA including costs for facilities and costs for functions and services performed by GenOn and charged to REMA. All significant intercompany accounts and transactions have been eliminated in consolidation.

At December 31, 2011 and 2010, all of REMA LLC's subsidiaries are wholly-owned and located in the United States. REMA does not consolidate three power generating facilities, which are under operating leases. See note 8.

Predecessor and Successor Reporting. Upon completion of the Merger, Mirant stockholders had a majority of the voting interest in the combined company. Although RRI Energy issued shares of RRI Energy common stock to Mirant stockholders to effect the Merger, the Merger is accounted for as a reverse acquisition under the acquisition method of accounting. Under the acquisition method of accounting, Mirant is treated as the accounting acquirer and RRI Energy is treated as the acquired company for financial reporting purposes. As such, the assets and liabilities of RRI Energy were recorded at their respective fair values as of the Merger date. Fair value adjustments related to the

Merger have been pushed down to REMA, resulting in certain assets and liabilities of REMA being recorded at fair value at December 3, 2010. See note 2.

REMA's consolidated statements of operations subsequent to the Merger include amortization expense relating to fair value adjustments and depreciation expense based on the fair value of REMA's property, plant and equipment. In addition, effective with the Merger, REMA adopted accounting policies of GenOn. Therefore, REMA's financial information prior to the Merger is not comparable to its financial information subsequent to the Merger.

Due to the impact of push down accounting, the financial statements and certain note presentations separate REMA's presentations into two distinct periods, the period before the consummation of the Merger (labeled Predecessor) and the period after that date (labeled Successor), to indicate the application of different basis of accounting between the periods presented.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make various estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. REMA's significant estimates include:

- estimating the fair value of its assets and liabilities in connection with the Merger;
- estimating the fair value of certain derivative contracts;
- estimating the useful lives of long-lived assets;
- estimating future costs and the valuation of asset retirement obligations;
- estimating future cash flows in determining impairments of long-lived assets and definite-lived intangible assets; and
- estimating losses to be recorded for contingent liabilities.

REMA evaluates events that occur after the balance sheet date but before the financial statements are issued for potential recognition or disclosure. Based on its evaluation, as of the time the financial statements were available to be issued on April 25, 2012, REMA determined that there were no material subsequent events for recognition or disclosure other than those disclosed herein.

Revenue Recognition

REMA recognizes revenue when earned and collection is probable. REMA earns revenue from the following sources: (a) power generation revenues, (b) contracted and capacity revenues and (c) power hedging revenues.

Power Generation Revenues. REMA recognizes revenue from the sale of electricity from its generating facilities. Sales of energy primarily are based on economic dispatch or "as-ordered" by the regional transmission organization (RTO), based on member participation agreements, but without an underlying contractual commitment. RTO revenues and revenues from sales of energy based on economic-dispatch are recorded on the basis of megawatt hour (MWh) delivered, at the relevant day-ahead or real-time prices.

Contracted and Capacity Revenues. REMA recognizes revenue received from providing ancillary services and revenue received from the RTO based on auction results or negotiated contract prices for making installed generation capacity available to meet system reliability requirements.

Power Hedging Revenues. REMA recognizes revenue from contracts for the sale of power used to hedge power prices as well as for hedges to capture the incremental value related to the geographic location of its physical assets.

The following table reflects REMA's revenues by type:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Power generation revenues[1]	$ 353	$ 53	$ 400
Contracted and capacity revenues[1]	162	18	196
Power hedging revenues	1	—	(16)
Total operating revenues	$ 516	$ 71	$ 580

(1) All of REMA's power generation revenues and contracted and capacity revenues are from PJM Interconnection, LLC, an RTO.

In accordance with accounting guidance related to derivative financial instruments, physical transactions or revenues from the sale of generated electricity to RTOs are recorded on a gross basis in the consolidated statements of operations. Financial transactions are recorded on a net basis in the consolidated statements of operations.

Cost of Fuel, Electricity and Other Products

Cost of fuel, electricity and other products on REMA's consolidated statements of operations includes the costs of goods produced and sold through the combustion process, including the costs associated with handling and disposal of ash, natural gas transportation and services rendered during a reporting period. Cost of fuel, electricity and other products also includes purchased emissions allowances for carbon dioxide (CO_2), sulfur dioxide (SO_2) and nitrogen oxides (NO_x) and the settlements of and changes in fair value of derivative financial instruments used to hedge fuel economically. Additionally, cost of fuel, electricity and other products includes lower of cost or market inventory adjustments. Cost of fuel, electricity and other products excludes depreciation and amortization. Gross margin is total operating revenues less cost of fuel, electricity and other products.

Derivatives and Hedging Activities

In connection with the business of generating electricity, REMA is exposed to energy commodity price risk associated with the acquisition of fuel and emissions allowances needed to generate electricity, the price of electricity produced and sold, and the fair value of fuel inventories. Through its asset management activities, REMA enters into a variety of exchange-traded and over-the-counter (OTC) energy and energy-related derivative financial instruments, such as forward contracts, futures contracts, option contracts and financial swap agreements to manage exposure to commodity price risks. These contracts have varying terms and durations, which range from a few days to years, depending on the instrument.

Derivative financial instruments are recorded in the consolidated balance sheets at fair value, except for derivative contracts that qualify for and for which REMA has elected the normal purchase or normal sale exceptions, which are not reflected in the consolidated balance sheet or results of operations prior to accrual of the settlement. REMA presents its derivative contract assets and liabilities on a gross basis (regardless of master netting arrangements with the same counterparty). Cash collateral amounts, if any, are also presented on a gross basis.

If certain criteria are met, a derivative financial instrument may be designated as a fair value hedge or cash flow hedge. At December 31, 2011 and 2010, REMA did not have any derivative financial instruments designated as fair value or cash flow hedges. During January 1, 2010 through December 2, 2010, REMA had de-designated cash flow hedges. The fair value of REMA's de-designated cash flow hedges was deferred in accumulated other comprehensive loss and reclassified into earnings when the forecasted transactions affected earnings. As a result of

the application of push down accounting (see notes 1 and 2), the amount remaining in accumulated other comprehensive loss at the time of the Merger was written off in accordance with the applicable accounting guidance.

Changes in fair value of REMA's derivative financial instruments are recognized currently in earnings. REMA's derivative financial instruments are categorized as asset management activities. Changes in fair value and settlement of derivative financial instruments used to hedge electricity economically are reflected in operating revenues and changes in fair value and settlement of derivative financial instruments used to hedge fuel economically are reflected in cost of fuel, electricity and other products in the consolidated statements of operations.

REMA also considers risks associated with interest rates, counterparty credit and its own non-performance risk when valuing derivative financial instruments. The nominal value of the derivative contract assets and liabilities is discounted to account for time value using a LIBOR forward interest rate curve based on the tenor of the transactions being valued. See note 4.

Coal Supplier Concentration Risk

REMA's coal supply comes primarily from the Northern Appalachian and Central Appalachian coal regions. REMA enters into contracts of varying tenors to secure appropriate quantities of fuel that meet the varying specifications of its generating facilities. For the coal-fired generating facilities, REMA purchases most of its coal from a small number of suppliers under contracts with terms of varying lengths, some of which extend to 2013. Excluding the Keystone and Conemaugh generating facilities (which are not 100% owned by REMA), REMA had exposure to three counterparties at December 31, 2011 and 2010, that each represented an exposure of more than 10% of its total coal commitments, by volume, and in aggregate represented approximately 66% and 85% of REMA's total coal commitments at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the single largest counterparty represented an exposure of 25% and 38%, respectively, of these total coal commitments, by volume.

Coal Transportation Concentration Risk

The coal to operate REMA's coal-fired facilities is delivered primarily by train and REMA has a limited number of railroads transporting such coal. For 2011, one railroad represented 86% of REMA's coal transportation costs.

Concentration of Labor Subject to Collective Bargaining Agreements

At December 31, 2011, 72% of employees performing work directly for REMA are subject to collective bargaining agreements. Of those employees subject to collective bargaining agreements, 74% are represented by International Brotherhood of Electrical Workers Local 459. Of employees performing work directly for REMA, 16% are subject to a collective bargaining agreement that will expire in 2012. GenOn Energy Services, LLC intends to negotiate the renewal of this agreement and does not anticipate any disruptions to REMA's operations.

Cash and Cash Equivalents

REMA considers all short-term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2011 and 2010, except for amounts held in bank accounts to cover current payables, all of REMA's cash and cash equivalents were invested in AAA-rated United States Treasury money market funds.

Funds on Deposit

Funds on deposit are included in current and noncurrent assets in the consolidated balance sheets. Funds on deposit include the following:

	December 31,	
	2011	2010
	(in millions)	
Environmental compliance deposits [1]	$ 29	$ 28
Other [2]	1	—
Total current and noncurrent funds on deposit	30	28
Less: Current funds on deposit	1	—
Total noncurrent funds on deposit	$ 29	$ 28

(1) Represents deposits with the State of Pennsylvania to guarantee obligations related to future closures of coal ash landfill sites and with the State of New Jersey to satisfy obligations under the Industrial Site Recovery Act. See note 9 for obligations related to ash landfill sites and site contamination remediation.
(2) Includes cash at certain subsidiaries where the distribution or transfer of cash is restricted by financing and other agreements.

Inventories

Inventories consist primarily of materials and supplies, coal and fuel oil. Inventory is generally stated at the lower of cost or market value and is expensed on a weighted average cost basis. Fuel inventory is removed from the inventory account as it is used in the generation of electricity or sold to third parties. Materials and supplies are removed from the inventory account when they are used for repairs, maintenance or capital projects.

Inventories were comprised of the following:

	December 31,	
	2011	2010
	(in millions)	
Materials and supplies	$ 53	$ 52
Fuel inventory:		
Coal	48	27
Fuel oil	21	16
Total inventories	$ 122	$ 95

During 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, REMA recorded $3 million, an insignificant amount and $3 million, respectively, for lower of average cost or market valuation adjustments in cost of fuel, electricity and other products.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, which includes materials, labor, associated payroll-related and overhead costs and the cost of financing construction. The cost of routine maintenance and repairs, such as inspections and corrosion removal, and the replacement of minor items of property are charged to expense as incurred. Certain expenditures incurred during a major maintenance outage of a generating facility are capitalized, including the replacement of major component parts and labor and overhead incurred to install the parts. Depreciation of the recorded cost of depreciable property, plant and equipment is determined using primarily composite rates. Leasehold improvements are depreciated over the shorter of the expected life of the related equipment or the lease term. Upon the retirement or sale of property, plant and equipment, the cost of such assets and the related accumulated depreciation are removed from the consolidated balance sheets. No gain or loss is

recognized for ordinary retirements in the normal course of business since the composite depreciation rates used by REMA take into account the effect of interim retirements.

Impairment of Long-Lived Assets

REMA evaluates long-lived assets, such as property, plant and equipment and purchased intangible assets subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluations are performed in accordance with the accounting guidance related to evaluating long-lived assets for impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future net cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds its fair value. See note 5.

Capitalization of Interest Cost

REMA capitalizes interest on projects during their construction period. REMA determines which debt instruments represent a reasonable measure of the cost of financing construction in terms of interest costs incurred that otherwise could have been avoided. These debt instruments and associated interest costs are included in the calculation of the weighted average interest rate used for determining the capitalization rate. Once a project is placed in service, capitalized interest, as a component of the total cost of the construction, is depreciated over the estimated useful life of the asset constructed. During 2011, REMA capitalized $1 million of interest expense and during December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, REMA capitalized an insignificant amount of interest expense.

Environmental Costs

REMA expenses environmental expenditures related to existing conditions that do not have future economic benefit. REMA capitalizes environmental expenditures for which there is a future economic benefit. REMA records liabilities for expected future costs, on an undiscounted basis, related to environmental assessments and/or remediation when they are probable and can be reasonably estimated. In determining the liabilities, REMA refers to currently available information, including relevant past experience, remedial objectives, available technologies and applicable laws and regulations. REMA records reimbursements or recoveries of environmental remediation costs in income when received, or when receipt of recovery is highly probable.

Operating Leases

REMA leases various assets under non-cancelable leasing arrangements, including generating facilities, office space and other equipment. The rent expense associated with leases that qualify as operating leases is recognized on a straight-line basis over the lease term within operations and maintenance expense in the consolidated statements of operations. REMA leases a 16.45% interest in the Conemaugh facility, a 16.67% interest in the Keystone facility and a 100% interest in the Shawville facility. See note 8.

Intangible Assets

Intangible assets relate primarily to granted emissions allowances and acquired contracts. Emissions allowances are amortized on a straight-line basis to their estimated residual values over their respective useful lives ranging up to 30 years. See note 5.

Income Taxes and Deferred Tax Asset Valuation Allowance

The operations of REMA are conducted primarily through a limited liability company that is treated as a branch of GenOn Northeast Generation, Inc. for income tax purposes. As a result, GenOn Northeast Generation, Inc. and GenOn Energy have direct liability for the majority of the federal and state income taxes relating to REMA's operations. In 2010, GenOn rescinded its tax sharing agreement with REMA. The deferred taxes that

were related to REMA LLC were distributed to GenOn Northeast Generation, Inc., which net of the valuation allowance were $0. REMA LLC's two subsidiaries, GenOn REMA Services, Inc. and GenOn Northeast Management Company, continue to exist as regarded corporate entities for income tax purposes. For the corporate regarded entities, REMA allocates current and deferred income taxes to each corporate regarded entity as if such entity were a single taxpayer utilizing the asset and liability method to account for income taxes. To the extent REMA provides tax expense or benefit, any related tax payable or receivable to GenOn is reclassified to equity in the same period since REMA does not have a tax sharing agreement with GenOn. REMA LLC, GenOn Northeast Management Company and GenOn REMA Services, Inc. are included in the consolidated federal and state returns of GenOn Energy and REMA's regarded subsidiaries also file separate state returns where required.

Deferred tax assets and liabilities are recognized for the regarded corporate entities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. When necessary, deferred tax assets are reduced by a valuation allowance to reflect the amount that is estimated to be recoverable. In assessing the recoverability of the deferred tax assets, REMA considers whether it is likely that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The guidance related to accounting for income taxes requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the appropriate character during the periods in which those temporary differences are deductible. In making this determination, management considers all available positive and negative evidence affecting specific deferred tax assets, including past and anticipated future performance, the reversal of deferred tax liabilities and the implementation of tax planning strategies.

Additionally, REMA has not recognized any tax benefits relating to tax uncertainties arising in the ordinary course of business that are less than or subject to the measurement threshold of the more-likely-than-not standard prescribed under the guidance for accounting for uncertainty in income taxes. These unrecognized tax benefits may be either a tax liability or an adjustment to their net operating losses based on the specific facts of each tax uncertainty. REMA periodically assesses its tax uncertainties based on the latest information available. The amount of the unrecognized tax benefit requires management to make significant assumptions about the expected outcomes of certain tax positions included in the filed or yet to be filed tax returns.

Fair Value of Financial Instruments

The accounting guidance related to the disclosure about fair value of financial instruments requires the disclosure of the fair value of all financial instruments that are not otherwise recorded at fair value in the financial statements. At December 31, 2011 and 2010, financial instruments recorded at contractual amounts that approximate fair value include certain funds on deposit, receivables, receivables–affiliate, accounts payable and accrued liabilities and payables–affiliate. The fair values of such items are not materially sensitive to shifts in market interest rates because of the short term to maturity of these instruments. See note 4.

Recently Adopted Accounting Guidance

Fair Value Measurement and Disclosure. Effective January 1, 2011, REMA adopted the Financial Accounting Standards Board (FASB) accounting guidance that requires a reconciliation for Level 3 fair value measurements, including presenting separately the amounts of purchases, issuances and settlements on a gross basis. See note 4.

New Accounting Guidance Not Yet Adopted at December 31, 2011

Fair Value Measurement and Disclosure. In May 2011, the FASB issued new fair value measurement and disclosure guidance. The new standard does not extend the use of fair value but rather provides guidance about how fair value should be determined and requires additional disclosures. The guidance is not expected to have a material effect on REMA's fair value measurements, but will require disclosure of the following:

- quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy;
- for those fair value measurements categorized within Level 3 of the fair value hierarchy, both the valuation processes used and the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any; and
- the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed.

REMA will adopt the guidance effective January 1, 2012.

Balance Sheet Offsetting. In December 2011, the FASB issued updated guidance to provide enhanced disclosures such that users of the financial statements will be able to better evaluate the effect or potential effect of netting arrangements on the statement of financial position. The guidance requires improved information about financial instruments and derivative instruments that are either offset according to specific guidance or subject to an enforceable master netting agreement or similar arrangement. The disclosures will provide both net and gross information for these assets and liabilities. Although REMA does not currently elect to offset assets and liabilities within the scope of the guidance, expanded disclosures will be required starting in 2013, along with retrospective presentation of prior periods.

2. Merger

On December 3, 2010, Mirant and RRI Energy completed the Merger. The Merger is accounted for under the acquisition method of accounting for business combinations. RRI Energy's assets acquired and liabilities assumed were recorded at estimated fair values on the Merger date. Because the fair value of the net assets acquired exceeded the purchase price, the Merger was accounted for as a bargain purchase in accordance with the accounting guidance.

As discussed in note 1, acquisition accounting impacts have been pushed down to REMA, resulting in certain assets and liabilities of REMA being recorded at fair value at December 3, 2010. GenOn finalized its assessment of fair value during 2011, and adjusted for information that was not previously available to GenOn. The final allocation of assets and liabilities as of December 3, 2010 is as follows (in millions):

Cash and cash equivalents	$ 22	
Current derivative contract assets	11	
Inventories	104	
Other current assets	42	
Property, plant and equipment	600	(1)
Intangible assets	11	
Other noncurrent assets	27	
Current derivative contract liabilities	(50)	
Other current liabilities	(533)	
Pension and postemployment obligations	(37)	
Other noncurrent liabilities	(739)	
Equity	$ (542)	

(1) The valuations of the acquired long-lived assets were primarily based on the income approach, and in particular, discounted cash flow analyses. The income approach was employed for the generating facilities because of the differing age, geographic location, market

conditions, asset life, equipment condition and status of environmental controls of the assets. The discounted cash flows incorporated information based on observable market prices to the extent available and long-term prices derived from proprietary fundamental market modeling. For the generating facilities that were not valued using the income approach, the cost approach was used. The market approach was considered, but was ultimately given no weighting because of many of the factors listed as the primary reasons for application of the income approach as well as a lack of proximity of the observed transactions to the valuation date.

The above allocation of the purchase price includes revisions to the provisional allocation that was reported at September 30, 2011, June 30, 2011, March 31, 2011 and December 31, 2010 primarily for property, plant and equipment, long-term liabilities related to out-of-market contracts and asset retirement obligations. REMA's consolidated balance sheet at December 31, 2010 has been retroactively amended for the revisions to the provisional allocation as follows:

	Increase/ (Decrease)
	(in millions)
Property, Plant and Equipment, net	$ 74
Current Liabilities:	
Total current liabilities	$ 1
Noncurrent Liabilities:	
Out-of-market contracts	(42)
Other noncurrent liabilities	(4)
Total noncurrent liabilities	(46)
Member's Equity:	
Additional paid-in capital	119
Total member's equity	119
Total Liabilities and Member's Equity	$ 74

The impacts on REMA's results of operations for 2010 as a result of the revisions to the provisional allocation were not material.

REMA is subject to material contingencies, some of which may involve substantial amounts, relating to environmental matters. For information regarding these contingencies, see note 9. As a result of the number of variables and assumptions involved in assessing the possible outcome of these matters, sufficient information does not exist to reasonably estimate the fair value or a range of outcomes for these contingent liabilities, except as disclosed in note 9. Unless otherwise noted in note 9, REMA cannot predict the outcome of the matters. These material contingencies have been evaluated in accordance with the accounting guidance for contingencies, and no amounts for these matters have been recorded at the date of the Merger because the recognition criteria have not been met, except as denoted in note 9. See note 8 for information regarding guarantees and indemnifications.

3. Related Party Transactions

These financial statements include the impact of significant transactions between REMA and GenOn. The majority of these transactions involve the purchase or sale of energy, capacity, fuel, emissions allowances or related services (including transportation, transmission and storage services) from or to REMA and allocations of costs to REMA for support services.

Support and Technical Services. GenOn provides commercial support, technical services and other corporate services to REMA. GenOn allocates certain support services costs to REMA based on REMA's underlying planned operating expenses relative to the underlying planned operating expenses of other entities to which GenOn provides similar services and also charges REMA for certain other services based on usage. Management thinks this method of allocation is reasonable. These allocations and charges are not necessarily indicative of what would have been incurred had REMA been an unaffiliated entity. Payments to GenOn for support services are subordinated to certain obligations, including the lease obligations, pursuant to the leases.

The following details the amounts recorded as operations and maintenance – affiliate:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Allocated or charged by GenOn	$ 51	$ 5	$ 94

On January 1, 2011, the employees of REMA were transferred to GenOn Energy Services, LLC. Accordingly, REMA entered into an agreement with GenOn Energy Services, LLC pursuant to which the services of such transferred employees are provided to REMA, together with such other services as REMA elects from time to time. Under the terms of such agreement, REMA pays the actual costs incurred by GenOn Energy Services, LLC in connection with the provision of such services. Payments to GenOn Energy Services, LLC for such transferred employee services rank equal in priority with REMA's lease obligations. REMA's employee-related obligations and the related deferred taxes, net of valuation allowances, were distributed to GenOn on January 1, 2011. During 2011, $35 million was recorded as operations and maintenance– affiliate related to these services.

Procurement and Marketing. REMA has sales to and purchases from GenOn related to commodity procurement and marketing services. Under the Procurement and Marketing Agreement, GenOn resells REMA's energy products in the PJM spot and forward markets and to other third parties. REMA is paid the amount received by GenOn for such capacity and energy. REMA has counterparty credit risk in the event that GenOn is unable to collect amounts owed from third parties for the resale of REMA's energy products.

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Sales to GenOn under various commodity agreements[1]	$ 477	$ 68	$ 547
Purchases from GenOn under various commodity agreements[2]	106	(1)	4
Fees charged by GenOn for these services and included in operations and maintenance – affiliate	6	1	5
Fees charged by GenOn for these services and included in cost of fuel, electricity and other products – affiliate	1	—	1

(1) Recorded in operating revenues – affiliate. These amounts are not subordinated.
(2) Recorded in cost of fuel, electricity and other products – affiliate. These amounts are not subordinated.

Subordinated Accounts and Interest Payable, Net — Affiliate. Due to some of the transactions discussed above under support and technical services and commodity procurement and marketing, REMA records payables to and receivables from GenOn as subordinated amounts. At December 31, 2011 and 2010, the net subordinated accounts and interest payable to affiliates was $512 million and $434 million, respectively. The outstanding balance is classified as a current liability consistent with the terms of the agreements. However, payments of this liability are subordinated to certain obligations, including the lease obligations, and are subject to the restricted payments test in the leases. REMA incurred interest expense in connection with the payables of $18 million, $1 million and $10 million during 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, respectively. See note 8 for a discussion of the leases and restrictions.

Subordinated Long-term Note Payable — Affiliate. REMA has a note payable to GenOn. The note is due January 1, 2029 and accrues interest at a fixed rate of 9.4% per year. At December 31, 2011 and 2010, REMA had $544 million outstanding under the note. In connection with this note, REMA has accrued subordinated interest payable to affiliate of $68 million and $62 million at December 31, 2011 and 2010, respectively. The outstanding accrued interest is classified as a current liability consistent with the terms of the agreements. However, payments under this indebtedness are subordinated to certain obligations, including the lease obligations, and are subject to the restricted payments test in the leases. See note 8 for a discussion of the leases and restrictions.

Working Capital Note. REMA has a revolving note payable to GenOn under which REMA may borrow, and GenOn is committed to lend, up to $30 million for working capital needs. Borrowings under the note are unsecured and will rank equal in priority with REMA's lease obligations. REMA periodically borrows on this note and repays the amounts throughout the year. The note accrues interest (which is paid monthly) at the prime rate plus 1.75%, which was 5% at December 31, 2011. REMA may replace this note with a working capital facility from an unaffiliated lender if then permitted under GenOn's debt agreements. At December 31, 2011 and 2010, there were no borrowings outstanding under the note. During 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, REMA borrowed and repaid $33 million, $9 million and $75 million, respectively, and incurred insignificant interest expense in each period.

Letters of Credit. REMA is obligated to provide credit support for its lease obligations (see note 8) in the form of letters of credit and/or cash equal to an amount representing the greater of (a) the next six months' scheduled rental payments under the related lease or (b) 50% of the scheduled rental payments due in the next 12 months under the related lease. Credit support is provided in the form of letters of credit issued under GenOn Energy's credit facilities. At December 31, 2011 and 2010, the amount of credit support was $28 million and $32 million, respectively.

Income Taxes. See discussion in notes 1 and 6 regarding REMA's policy with regards to income taxes.

4. Financial Instruments

(a) Derivatives and Hedging Activities.

The following table presents the fair value of REMA's commodity derivative financial instruments:

	Derivative Contract Assets		Derivative Contract Liabilities		Net Derivative Contract
	Current	Long-Term	Current	Long-Term	Assets (Liabilities)
			(in millions)		
December 31, 2011					
Asset management	$ —	$ —	$ (14)	$ —	$ (14)
Total derivatives	$ —	$ —	$ (14)	$ —	$ (14)
December 31, 2010					
Asset management	$ 14	$ —	$ (47)	$ (14)	$ (47)
Total derivatives	$ 14	$ —	$ (47)	$ (14)	$ (47)

The following tables present the net gains (losses) for derivative financial instruments recognized in income in the consolidated statements of operations:

Successor

Derivatives Not Designated as Hedging Instruments	2011 Operating Revenues	2011 Cost of Fuel, Electricity and Other Products	December 3, 2010 through December 31, 2010 Operating Revenues	December 3, 2010 through December 31, 2010 Cost of Fuel, Electricity and Other Products
	(in millions)			
Asset Management Commodity Contracts:				
Unrealized	$ 37	$ (3)	$ 3	$ 2
Realized[1] [2]	(37)	—	(3)	(2)
Total asset management	$ —	$ (3)	$ —	$ —

(1) Represents the total cash settlements of derivative financial instruments during each reporting period (composed of the sum of the quarterly settlements) that existed at the beginning of each respective period.
(2) Effective January 1, 2011, excludes settlement value of fuel contracts classified as inventory.

Predecessor

Derivatives not Designated as Hedging Instruments	January 1, 2010 through December 2, 2010 Revenues	January 1, 2010 through December 2, 2010 Cost of Fuel, Electricity and Other Products
	(in millions)	
Asset Management Commodity Contracts:		
Unrealized	$ 19	$ 6
Realized[1] [2] [3]	(35)	—
Total asset management	$ (16)	$ 6

(1) Does not include realized gains/losses associated with cash month transactions, non-derivative transactions or derivative transactions that qualify for the normal purchase/normal sale exception.
(2) Excludes settlement value of fuel contracts classified as inventories upon settlement.
(3) Includes gains or losses from de-designated cash flow hedges reclassified from accumulated other comprehensive loss due to settlement of the derivative contracts. See note 1.

At December 31, 2011, REMA had insignificant amounts of notional quantity on long (short) positions for derivative financial instruments. The following table presents the notional quantity on long (short) positions for derivative financial instruments at December 31, 2010:

Derivative Instruments	Notional Volumes at December 31, 2010: Derivative Contract Assets	Derivative Contract Liabilities	Net Derivative Contracts
		(in millions)	
Commodity Contracts (in equivalent MWh):			
Power	1	(1)	—
Coal	1	—	1

(b) Fair Value Measurements.

Fair Value Hierarchy and Valuation Techniques. REMA applies recurring fair value measurements to its financial assets and liabilities. In estimating fair value, REMA generally uses a market approach and incorporates

assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation techniques. The fair value measurement inputs REMA uses vary from readily observable prices for exchange-traded instruments to price curves that cannot be validated through external pricing sources. Based on the observability of the inputs used in the valuation techniques, the financial assets and liabilities carried at fair value in the consolidated financial statements are classified as follows:

Level 1: Represents unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date. REMA's interest bearing funds are valued using Level 1 inputs.

Level 2: Represents quoted market prices for similar assets or liabilities in active markets, quoted market prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data. This category primarily includes non-exchange traded derivatives such as OTC forwards, swaps and options, and certain energy derivative instruments that are cleared and settled through exchanges.

Level 3: Represents commodity derivative instruments whose fair value is estimated based on internally developed models and methodologies utilizing significant inputs that are generally less readily observable from market sources (such as implied volatilities and correlations). The OTC, complex or structured derivative instruments that are transacted in less liquid markets with limited pricing information are included in Level 3. Examples are coal contracts, power transmission congestion products, power and natural gas contracts and options valued using internally developed inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls must be determined based on the lowest level input that is significant to the fair value measurement. REMA's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

A significant amount of the fair value of REMA's derivative contract assets and liabilities is based on observable quoted prices from exchanges and indicative quoted prices from independent brokers in active markets that regularly facilitate REMA's transactions. An active market is considered to have transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. REMA thinks these prices represent the best available information for valuation purposes. In determining the fair value of derivative contract assets and liabilities, REMA uses third-party market pricing where available. For transactions classified in Level 1 of the fair value hierarchy, REMA uses the unadjusted published settled prices on the valuation date. For transactions classified in Level 2 of the fair value hierarchy, REMA values these transactions using indicative quoted prices from independent brokers or other widely-accepted valuation methodologies. Transactions are classified in Level 2 if substantially all (greater than 90%) of the fair value can be corroborated using observable market inputs such as transactable broker quotes. In accordance with the exit price objective under the fair value measurements accounting guidance, the fair value of REMA's derivative contract assets and liabilities is determined based on the net underlying position of the recorded derivative contract assets and liabilities using bid prices for assets and ask prices for liabilities. The quotes REMA obtains from brokers are non-binding in nature, but are from brokers that typically transact in the market being quoted and are based on their knowledge of market transactions on the valuation date. REMA typically obtains multiple broker quotes as of the valuation date that extend for the tenor of its underlying contracts for each delivery location. The number of quotes REMA can obtain depends on the relative liquidity of the delivery location on the valuation date. If multiple broker quotes are received for a contract, REMA uses an average of the quoted bid or ask prices. If only one broker quote is received for a delivery location and it cannot be validated through other external sources, REMA will assign the quote to a lower level within the fair value hierarchy. In some instances, REMA may combine broker quotes for a liquid delivery hub with broker quotes for the price spread between the liquid delivery hub and the delivery location under the contract. REMA also may apply interpolation techniques to value monthly strips if broker quotes are only available on a seasonal or annual basis. REMA performs validation procedures on the broker quotes at least monthly. The validation procedures include reviewing the quotes for accuracy and comparing them to REMA's internal price curves. In certain instances, REMA may exclude from consideration a broker quote if it is a clear outlier and multiple other quotes are

obtained. At December 31, 2011, REMA obtained broker quotes for 100% of its delivery locations classified in Level 2 of the fair value hierarchy.

Inactive markets are considered to be those markets with few transactions, noncurrent pricing or prices that vary over time or among market makers. REMA's transactions in Level 3 of the fair value hierarchy may involve transactions whereby observable market data, such as broker quotes, are not available for substantially all of the tenor of the contract or REMA is only able to obtain indicative broker quotes that cannot be corroborated by observable market data. In such cases, REMA may apply valuation techniques such as extrapolation and other quantitative methods to determine fair value. REMA's techniques for fair value estimation include assumptions for market prices, correlation and volatility. The degree of estimation increases for longer duration contracts, contracts with multiple pricing features, option contracts and off-hub delivery points. At December 31, 2011, REMA did not have any derivative contract assets or liabilities classified as Level 3 in the fair value hierarchy. At December 31, 2010, REMA's derivative contracts assets and liabilities classified as Level 3 in the fair value hierarchy represented approximately 21% of its total assets and 0% of its total liabilities measured at fair value.

The fair value of REMA's derivative contract assets and liabilities is also affected by assumptions as to time value, credit risk and non-performance risk. The nominal value of derivatives is discounted to account for time value using a LIBOR forward interest rate curve based on the tenor of the transaction. Derivative contract assets are reduced to reflect the estimated default risk of counterparties on their contractual obligations. The counterparty default risk for REMA's overall net position is measured based on published spreads on credit default swaps for counterparties, where available, or proxies based upon published spreads, applied to REMA's current exposure and potential loss exposure from the financial commitments in REMA's risk management portfolio. The fair value of REMA's derivative contract liabilities is reduced to reflect the estimated risk of default on contractual obligations to counterparties and is measured based on published default rates of GenOn's debt, where available, or proxies based upon published spreads. Credit risk and non-performance risk are calculated with consideration of REMA's master netting agreements with counterparties and its exposure is reduced by cash collateral posted against these obligations.

Fair Value of Derivative Instruments and Certain Other Assets. The fair value measurements of financial assets and liabilities by class are as follows:

	December 31, 2011			
	Level 1[(1)]	**Level 2[(1)]**	**Level 3**	**Total Fair Value**
	(in millions)			
Derivative contract liabilities:				
Power	$ —	$ (14)	$ —	$ (14)
Total derivative contract liabilities	$ —	$ (14)	$ —	$ (14)
Interest-bearing funds[(2)]	$ 38	$ —	$ —	$ 38

(1) Transfers between Level 1 and Level 2 are recognized as of the end of the reporting period. There were no significant transfers during 2011.

(2) Represents investments in money market funds and are included in cash and cash equivalents, funds on deposit, and other noncurrent assets in the balance sheet. REMA had $29 million of interest-bearing funds included in cash and cash equivalents, $1 million included in funds on deposit and $8 million included in other noncurrent assets.

	December 31, 2010			
	Level 1[1]	Level 2[1]	Level 3	Total Fair Value
	(in millions)			
Derivative contract assets:				
Power	$ —	$ 11	$ —	$ 11
Fuel	—	—	3	3
Total derivative contract assets	$ —	$ 11	$ 3	$ 14
Derivative contract liabilities:				
Power	$ —	$ 61	$ —	$ 61
Total derivative contract liabilities	$ —	$ 61	$ —	$ 61
Interest-bearing funds[2]	$ 21	$ —	$ —	$ 21

(1) Transfers between Level 1 and Level 2 are recognized as of the end of the reporting period. There were no significant transfers during 2010.

(2) Represents investments in money market funds and are included in cash and cash equivalents and funds on deposit in the consolidated balance sheet. REMA had $21 million of interest-bearing funds included in cash and cash equivalents and an insignificant amount included in funds on deposit.

The following is a reconciliation of changes (comprised of the sum of the quarterly changes) in fair value of net commodity derivative contract assets and liabilities classified as Level 3 during 2011 and December 3, 2010 through December 31, 2010:

Successor

	Net Derivatives Contracts (Level 3)
	Asset Management
	(in millions)
Balance, January 1, 2011 (net asset (liability))	$ 3
Total gains realized/unrealized:	
Included in earnings[(1)]	(1)
Purchases[(2)]	—
Issuances[(2)]	—
Settlements[(3)]	(2)
Transfers into Level 3[(4)]	—
Transfers out of Level 3[(4)]	—
Balance, December 31, 2011 (net asset (liability))	$ —
Balance, December 3, 2010 (net asset (liability))	$ 1
Total gains realized/unrealized:	
Included in earnings[(1)]	3
Purchases[(2)]	—
Issuances[(2)]	—
Settlements[(5)]	(1)
Transfers in and out of Level 3[(4)]	—
Balance, December 31, 2010 (net asset (liability))	$ 3

(1) Represents the fair value, as of the end of each reporting period, of Level 3 contracts entered into during each reporting period and the gains and losses attributable to Level 3 contracts that existed as of the beginning of each reporting period and were still held at the end of each reporting period.

(2) Contracts entered into during each reporting period are reported with other changes in fair value.

(3) Effective January 1, 2011, represents the reversal of previously recognized unrealized gains and losses from settlement of contracts during each reporting period.

(4) Denotes the total contracts that existed at the beginning of each reporting period and were still held at the end of each reporting period that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during each reporting period. Amounts reflect fair value as of the end of each reporting period.

(5) Represents the total cash settlements of contracts during each reporting period that existed at the beginning of each reporting period.

The following table presents the amounts included in income related to derivative contract assets and liabilities classified as Level 3:

	2011			December 3, 2010 through December 31, 2010		
	Operating Revenues	Cost of Fuel, Electricity and Other Products	Total	Operating Revenues	Cost of Fuel, Electricity and Other Products	Total
	(in millions)					
Gains (losses) included in income	$ —	$ (3)	$ (3)	$ —	$ 2	$ 2
Gains (losses) included in income (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at December 31	$ —	$ (3)	$ (3)	$ —	$ 2	$ 2

The following is a reconciliation of changes (comprised of the sum of the quarterly changes) in fair value of net commodity derivative contract assets and liabilities classified as Level 3 during January 1, 2010 through December 2, 2010:

Predecessor	Net Derivatives Contracts (Level 3)
	Asset Management
	(in millions)
Balance, January 1, 2010 (net asset (liability))	$ (6)
Total gains realized/unrealized:	
Included in earnings[1]	9
Purchases	—
Issuances	—
Settlements	(3)
Transfers in and out of Level 3	—
Balance, December 2, 2010 (net asset (liability))	$ —

(1) Recorded in cost of fuel, electricity and other products.

The following table presents the amounts included in income related to derivative contract assets and liabilities classified as Level 3:

	January 1, 2010 through December 2, 2010		
	Operating Revenues	Cost of Fuel, Electricity and Other Products	Total
	(in millions)		
Gains included in income (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at December 2, 2010	$ —	$ 1	$ 1

(c) Counterparty Credit Concentration Risk.

REMA is exposed to the default risk of the counterparties with which it transacts. REMA manages its credit risk by entering into master netting agreements and requiring counterparties to post cash collateral or other credit enhancements based on the net exposure and the credit standing of the counterparty. At December 31, 2011 and 2010, there was no cash collateral posted by counterparties under master netting agreements.

REMA monitors counterparty credit concentration risk on both an individual basis and a group counterparty basis. The following tables highlight the credit quality and the balance sheet settlement exposures related to these activities:

	December 31, 2011				
Credit Rating Equivalent	**Gross Exposure Before Collateral**[1]	**Net Exposure Before Collateral**[2]	**Collateral**[3]	**Exposure Net of Collateral**	**% of Net Exposure**
			(dollars in millions)		
Investment Grade:					
Energy companies	$ 13	$ 13	$ —	$ 13	100%
Non-investment Grade:					
Energy companies	3	—	—	—	—
Total	$ 16	$ 13	$ —	$ 13	100%

	December 31, 2010				
Credit Rating Equivalent	**Gross Exposure Before Collateral**[1]	**Net Exposure Before Collateral**[2]	**Collateral**[3]	**Exposure Net of Collateral**	**% of Net Exposure**
			(dollars in millions)		
Clearing and Exchange	$ 5	$ —	$ —	$ —	—
Investment Grade:					
Energy companies	52	41	—	41	93%
Non-investment Grade:					
Energy companies	16	3	—	3	7%
Total	$ 73	$ 44	$ —	$ 44	100%

(1) Gross exposure before collateral represents credit exposure, including both realized and unrealized transactions, before (a) applying the terms of master netting agreements with counterparties and (b) netting of transactions with clearing brokers and exchanges. The table excludes amounts related to contracts classified as normal purchases/normal sales and non-derivative contractual commitments that are not recorded at fair value in the consolidated balance sheets, except for any related accounts receivable. Such contractual commitments contain credit and economic risk if a counterparty does not perform. Non-performance could have a material adverse effect on the future results of operations, financial condition and cash flows.

(2) Net exposure before collateral represents the credit exposure, including both realized and unrealized transactions, after applying the terms of master netting agreements and the netting of transactions with clearing brokers and exchanges.

(3) Collateral includes cash and letters of credit received from counterparties.

(d) REMA Credit Risk.

REMA's credit availability is based on GenOn's credit ratings. REMA's standard industry contracts contain credit-risk-related contingent features such as ratings-related thresholds whereby REMA would be required to post additional cash collateral or letters of credit as a result of a credit event, including a downgrade. Additionally, some of REMA's contracts contain adequate assurance language, which is generally subjective in nature, but could require REMA to post additional cash collateral or letters of credit as a result of a credit event, including a downgrade. However, as a result of GenOn's current credit rating, REMA is typically required to post collateral in the normal course of business to offset either substantially or completely the net liability positions, after applying the terms of master netting agreements. At December 31, 2011, the fair value of REMA's financial instruments with credit-risk-

related contingent features in a net liability position was $5 million for which REMA had posted collateral of $4 million, including cash and letters of credit.

(e) Fair Values of Other Financial Instruments.

The fair values of certain funds on deposit, receivables, receivables–affiliate, accounts payable and accrued liabilities and payables–affiliate approximate their carrying amounts.

5. Long-Lived Assets

(a) Property, Plant and Equipment, Net.

Effective with the Merger, recorded balances and the estimated useful lives for property, plant and equipment were adjusted to reflect fair values at December 3, 2010. Property, plant and equipment, net consisted of the following:

	December 31, 2011	December 31, 2010	Depreciable Lives (Years)
	(in millions)		
Production	$ 442	$ 425	4 to 28
Leasehold improvements on leased generating facilities	175	149	4 to 23
Construction work in progress	25	25	—
Other	3	4	3 to 12
Total	645	603	
Accumulated depreciation and amortization	(60)	(3)	
Total property, plant and equipment, net	$ 585	$ 600	

Depreciation of the recorded cost of property, plant and equipment is recognized on a straight-line basis over the estimated useful lives of the assets.

Depreciation expense was as follows:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Depreciation expense	$ 58	$ 4	$ 37

(*b*) *Intangible Assets, Net.*

Effective with the Merger, recorded balances for emissions allowances were adjusted to reflect fair values at December 3, 2010. The following is a summary of intangible assets:

		December 31,			
		2011		2010	
	Weighted Average Amortization Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		(in millions)			
Emissions allowances[1]	30 years	$ 4	$ (3)	$ 5	$ —
Acquired contracts	—	5	(5)	5	(3)
Total intangible assets		$ 9	$ (8)	$ 10	$ (3)

(1) During 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, REMA purchased $0, $0 and $1 million, respectively, of emissions allowances from affiliates.

Acquired contracts represent contracts acquired in connection with the Merger and represent the fair value on the Merger date of certain long-term tolling contracts, long-term natural gas transportation and storage contracts and REMA leases. The acquired contracts with positive fair values on the Merger date were recorded in intangible assets in the consolidated balance sheet; these amounts have been fully amortized at December 31, 2011. The acquired contracts with negative fair values on the Merger date are referred to as out-of-market contracts and were recorded in noncurrent liabilities in the consolidated balance sheet. The out-of-market contracts are the REMA leases. See note 8. At December 31, 2011 and 2010, $134 million and $142 million, respectively, were included in noncurrent liabilities related to these leases. The acquired contracts and out-of-market contracts are amortized in operating revenues, cost of fuel, electricity and other products and operations and maintenance expense, as applicable, based on the nature of the contracts and over their contractual lives.

Amortization expense for emissions allowances, excluding acquired contracts and out-of-market contracts, was as follows:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Amortization expense	$ 2	$ —	$ 7

Assuming no future acquisitions, dispositions or impairments of intangible assets, amortization expense for emissions allowances is expected to be insignificant for each of the next five years.

Acquired contracts and out-of-market contracts amortization was as follows (increase (decrease), net):

	2011	December 3, 2010 through December 31, 2010
	(in millions)	
Cost of fuel, electricity and other products	$ 2	$ 3
Operations and maintenance expense	(7)	(1)

Out-of-market contracts amortization is estimated to be approximately the following for each of the next five years (increase (decrease), net):

	Operations and Maintenance Expense
2012	$ (7)
2013	(7)
2014	(7)
2015	(7)
2016	(7)

(c) Impairments on Assets Held and Used.

2011

Granted Emissions Credits

In August 2011, the EPA finalized the Cross-State Air Pollution Rule (CSAPR), which was intended to replace the Clean Air Interstate Rule (CAIR) starting in 2012. In September 2011, REMA and others asked the D.C. Circuit to stay and vacate the CSAPR. In December 2011, the court ordered the Environmental Protection Agency (EPA) to stay implementation of the CSAPR and to keep CAIR in place until the court rules on the legal deficiencies alleged with respect to the CSAPR. The CSAPR addresses interstate transport of emissions of NO_x and SO_2. The CSAPR establishes limitations on NO_x and/or SO_2 emissions from electric generating units that are (i) greater than 25 megawatts and (ii) located in 28 states (in the eastern half of the United States) that the EPA determined contribute significantly to nonattainment in other states, or to interfere with maintenance in other states, of one or more of three National Ambient Air Quality Standards (NAAQS): (a) the annual NAAQS for fine particulate matter ($PM_{2.5}$) promulgated in 1997; (b) the "24-hour" NAAQS for $PM_{2.5}$ promulgated in 2006 and (c) the ozone NAAQS promulgated in 1997. The CSAPR creates "emission budgets" for each of the covered states and allocates emissions allowances (denominated in tons of emissions) to each of the 28 states regulated under the CSAPR.

Under the CSAPR program, the EPA established new allowances for all of the new CSAPR programs and did not permit any carryover Acid Rain Program or CAIR allowances into the CSAPR trading programs. As a result, the SO_2 allowances used for compliance in the CAIR program (which used the already existing Acid Rain Program allowances that would have continued to be usable for compliance with the Acid Rain Program) would not have been usable for compliance with the CSAPR SO_2 program and REMA thought they would have negligible value after 2011. As a result of the CSAPR, REMA recorded impairment losses of $1 million for the write-off of excess SO_2 emissions allowances previously included in intangible assets during 2011. The emissions allowances within intangible assets had previously been included with a generating facility asset group for purposes of impairment testing. Because REMA thought the SO_2 emissions allowances would have negligible value after 2011 under the CSAPR and their price had fallen sharply, REMA evaluated, in conjunction with preparing its third quarter interim financial statements, these emissions allowances for impairment separately from the generating facility asset group and determined that impairments existed.

The excess Acid Rain Program SO_2 emissions allowances of $2 million were impaired to their estimated fair value of $1 million based on their current market prices obtained from brokers. The excess Acid Rain Program SO_2 emissions allowances were categorized in Level 3 in the fair value hierarchy.

2010

Titus Generating Facility

Based on the further decline of forward commodity prices, REMA's asset recoverability review at September 30, 2010 indicated that the Titus plant needed to be measured at fair value to determine if impairment existed.

Assumptions and Results

The following summarizes some of the most significant estimates and assumptions used in evaluating REMA's plant level undiscounted cash flows at September 30, 2010. The ranges for the fundamental view assumptions are to account for variability by year and region.

Undiscounted Cash Flow Scenarios Weightings:	
5-year market forecast with escalation(1)(2)	50%
5-year market forecast with fundamental view(1)	50%
Range of Assumptions in Fundamental View:	
Demand for power growth per year	1%-2%
After-tax rate of return on new construction(3)	6.5%-9.5%
Spread between natural gas and coal prices, \$/MMBtu(4)	\$3-\$5

(1) For each scenario, the first five years of cash flows were the same.
(2) REMA assumed an annual 2.5% escalation percentage beyond year five.
(3) The low to mid part of the range represents natural gas-fired plants' required returns and the mid to high part of the range represents coal-fired and nuclear plants' required returns.
(4) Natural gas and coal prices were prior to transportation costs.

REMA estimated the undiscounted cash flows of its plants based on a number of subjective factors, including: (a) appropriate weighting of undiscounted cash flow scenarios, as shown in the table above, (b) forecasts of future power generation margins, (c) estimates of its future cost structure, (d) environmental assumptions, (e) time horizon of cash flow forecasts and (f) estimates of terminal values of plants, if necessary, from the eventual disposition of the assets.

Under the 5-year market forecast with escalation scenario, REMA used the following data: (a) forward market curves for commodity prices at September 21, 2010 for the first five years, (b) cash flow projections through the plant's estimated remaining useful life and (c) escalation factor of cash flows of 2.5% per year after year five.

Under the 5-year market forecast with fundamental view scenario, REMA modeled all of its plants and those of others in the regions in which REMA operated using these assumptions: (a) forward market curves for commodity prices at September 21, 2010 for the first five years; (b) ranges shown in the table above used in developing its fundamental view beyond five years; (c) the markets in which REMA operates will continue to be deregulated and earn margins based on forward or projected market prices; (d) projected market prices for energy and capacity will be set by the forecasted available supply and level of forecasted demand—new supply will enter markets when market prices and associated returns, including any assumed subsidies for renewable energy, are sufficient to achieve minimum return requirements; (e) minimum return requirements on future construction of new generation facilities, as shown in the table above, will likely be driven or influenced by utilities, which REMA expected will have a lower cost of capital than merchant generators; (f) various ranges of environmental regulations, including those for SO_2, NO_x and greenhouse gas emissions; and (g) cash flow projections through the plant's estimated remaining useful life.

Generally, fair value is determined using an income approach or a market-based approach. Under the income approach, the future cash flows are estimated as described above and then discounted using a risk-adjusted rate. Under a market-based approach, REMA may also consider prices of similar assets, consult with brokers or employ other valuation techniques.

The following were key assumptions used in REMA's fair value analyses of the Titus generating facility at September 30, 2010.

Valuation approach weightings:	
Income approach	100%
Market-based approach	0%
Risk-adjusted discount rate for the estimated cash flows	13%

REMA only used the income approach as REMA thinks no relevant market data exists for this plant for which REMA was required to estimate fair value. The discount rates reflect the uncertainty of the plant's cash flows and its ability to support debt, and was determined considering factors such as the potential for future capacity revenues and regulatory, commodity and macroeconomic conditions.

REMA determined that its Titus plant, which consists of property, plant and equipment, was impaired by $74 million at September 30, 2010. This impairment was primarily as a result of the further decline of forward commodity prices. See note 10 for a discussion of the Titus generating facility that REMA expects to deactivate in 2015.

(d) Asset Retirement Obligations.

Upon initial recognition of a liability for an asset retirement obligation or a conditional 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. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of accounting guidance are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

REMA identified certain asset retirement obligations within its power generating facilities. These asset retirement obligations are primarily related to asbestos abatement in facilities on owned or leased property and other environmental obligations related to ash disposal sites. In addition, the asset retirement obligations also relate to environmental obligations for fuel storage facilities. See note 9.

Asbestos abatement is the most significant type of asset retirement obligation identified for recognition in connection with REMA's policy related to accounting for conditional asset retirements. The EPA has regulations in place governing the removal of asbestos. Because of the nature of asbestos, it can be difficult to ascertain the extent of contamination in older facilities unless substantial renovation or demolition takes place. Therefore, REMA incorporated certain assumptions based on the relative age and size of its facilities to estimate the current cost for asbestos abatement. The actual abatement cost could differ from the estimates used to measure the asset retirement obligation. As a result, these amounts will be subject to revision when actual abatement activities are undertaken.

The following tables set forth the balances of the asset retirement obligations and the additions, revisions in estimated cash flows and accretion of the asset retirement obligations. The asset retirement obligations are included in other noncurrent liabilities in the consolidated balance sheets (in millions):

Successor		
Balance at December 2, 2010	$	11
Push down of fair value adjustments		18
Balance at December 31, 2010		29
Revisions in estimated cash flows		4
Accretion expense		3
Balance at December 31, 2011	$	36

Predecessor		
Balance at December 31, 2009	$	10
Accretion expense		1
Balance at December 2, 2010	$	11

At December 31, 2011 and 2010, REMA had $22 million and $20 million, respectively, (classified in other long-term assets) on deposit with the state of Pennsylvania to guarantee its obligation related to future closures of coal ash disposal landfill sites. At December 31, 2011 and 2010, GenOn Energy provided credit support in the form of surety bonds under which $17 million of cash was posted with the Pennsylvania Department of Environmental Protection (PADEP) related to these environmental obligations. See note 9.

6. Income Taxes

Income Tax Disclosures

See note 1 for discussion of REMA's income taxes and valuation allowance policies.

The income tax provision consisted of the following:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Current income tax provision	$ 1	$ —	$ 1
Deferred income tax provision	—	—	20
Provision for income taxes	$ 1	$ —	$ 21

The primary reconciling items between the federal statutory income tax rate and the effective income tax rate are as follows: (a) 2011— state income taxes and change in the valuation allowance, (b) December 3, 2010 through December 31, 2010 — LLC income not subject to federal taxation and (c) January 1, 2010 through December 2, 2010 — changes in the valuation allowance and state income taxes.

The tax effects of REMA's temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases which give rise to deferred tax assets and liabilities are as follows:

	December 31,	
	2011	2010
	(in millions)	
Deferred Tax Assets:		
Employee benefits	$ —	$ 19
Loss carry forwards	2	2
Subtotal	2	21
Valuation allowance	(2)	(21)
Net deferred tax assets	$ —	$ —

During 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, REMA recognized changes in its valuation allowance of $(19) million, $0 and $76 million, respectively, related to its net deferred tax assets. The 2011 reduction in its valuation allowance is due to the distribution of employee-related benefit obligations and associated deferred tax assets to GenOn Northeast Management, Inc.

At December 31, 2011 and 2010, REMA's deferred tax assets are completely reduced by a valuation allowance. The change in the valuation allowance in the successor period is due to REMA's consideration of cumulative negative evidence that the deferred tax assets will not be realized. The guidance related to accounting for income taxes requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, management has considered all available positive and negative evidence affecting specific deferred tax assets, including REMA's past and anticipated future performance, the reversal of deferred tax liabilities and the implementation of tax planning strategies. REMA continues to maintain its valuation allowance against its net deferred tax assets.

Tax Uncertainties

At December 31, 2011and 2010, REMA has unrecognized tax benefits of $1 million. The amount of unrecognized tax benefits that would impact the effective rate if recognized at these dates is insignificant. The recognition of contingent losses for tax uncertainties requires management to make significant assumptions about the expected outcomes of certain tax contingencies. REMA may only recognize the tax benefit for financial reporting purposes from an uncertain tax position when it is more-likely-than-not that, based on the technical merits, the position will be sustained by taxing authorities or courts. The recognized tax benefits are measured as the largest benefit having a greater than fifty percent likelihood of being realized upon settlement with a taxing authority. REMA classifies accrued interest and penalties related to uncertain income tax positions in income tax provision/benefit. The unrecognized tax benefits included REMA's review of tax positions relating to open tax years beginning in 2002 and continuing to the present. For United States federal and state income taxes, tax years are open subsequent to 2001. REMA's tax provision includes an immaterial amount related to the accrual for any penalties and interest subsequent to its adoption of the guidance related to accounting for uncertainty in income taxes.

Pro Forma Income Tax Disclosures

Effective December 3, 2010, federal and state income taxes are only allocated to the regarded entities in REMA. REMA is not subject to income taxes except for those subsidiaries that are separate taxpayers. GenOn Northeast Generation, Inc. and GenOn Energy are otherwise directly responsible for income taxes related to REMA's operations.

The following reflects a pro forma disclosure of the income tax provision that would be reported if REMA was to be allocated income taxes attributable to its operations. The Predecessor period does not include pro forma adjustments but is included here for comparability. Pro forma income taxes attributable to income before tax would consist of the following:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Current income tax provision	$ 1	$ —	$ 1
Deferred income tax provision	—	—	20
Provision for income taxes	$ 1	$ —	$ 21

The primary reconciling items between the federal statutory income tax rate and the effective income tax rate are as follows: (a) 2011 — changes in the valuation allowance and state income taxes, (b) December 3, 2010 through December 31, 2010 — changes in valuation allowance and (c) January 1, 2010 through December 2, 2010 — changes in the valuation allowance and state income taxes.

The tax effects of REMA's temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their respective tax bases which give rise to the pro forma deferred tax assets and liabilities would be as follows (the Predecessor period does not include pro forma adjustments, but is included here for comparability):

	December 31,	
	2011	2010
	(in millions)	
Deferred Tax Assets:		
Derivative contracts	$ 6	$ 20
Employee benefits	—	17
Reserves	4	1
Loss carry forwards	159	108
Property and intangible assets	168	169
Out-of-market contracts and other, net	56	65
Subtotal	393	380
Valuation allowance	(392)	(374)
Net deferred tax assets	1	6
Deferred Tax Liabilities:		
Other, net	(1)	(6)
Net deferred tax liabilities	(1)	(6)
Net deferred taxes	$ —	$ —

On a pro forma basis, during 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, REMA recognized changes in its valuation allowance of $18 million, $(54) million and $76 million, respectively, related to its net deferred tax assets.

REMA has pro forma federal and state net operating losses of $524 million that could be subject to significant limitation under IRC § 382 should GenOn Energy undergo an ownership change. Should GenOn Energy experience an ownership change occurring within the three-year testing window subsequent to the Merger, the result would be a significant limitation on the ability of REMA to use net operating losses, on a pro forma basis, to offset future taxable income. This limitation arises based on the pro forma view that REMA would be treated as having an ownership change if GenOn Energy experiences an ownership change.

As of the Merger, GenOn Energy determined it had not experienced an ownership change as defined in IRC § 382. IRC § 382 provides, in general, that an ownership change occurs when there is a greater than 50-percentage point increase in ownership of a company's stock by new or existing stockholders who own (or are deemed to own under IRC § 382) 5% or more of the loss company's stock over a three year testing period. IRC § 382 limits the amount of pre-merger net operating losses that can be used during any post-ownership change year to offset taxable income.

Pro Forma Tax Uncertainties

At December 31, 2011 and 2010, REMA has unrecognized tax benefits $1 million. The pro forma unrecognized tax benefit for REMA that would affect the tax rate is an insignificant amount. REMA's pro forma taxes include an immaterial amount related to the accrual for any penalties and interest subsequent to the adoption of the guidance related to accounting for uncertainty in income taxes.

REMA may only recognize the tax benefit for financial reporting purposes from an uncertain tax position when it is more-likely-than-not that, based on the technical merits, the position will be sustained by taxing authorities or courts. The recognized tax benefits are measured as the largest benefit having a greater than fifty percent likelihood of being realized upon settlement with a taxing authority. REMA classifies accrued interest and penalties related to uncertain income tax positions in income tax provision/benefit.

7. Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

Benefit Plans

Prior to January 1, 2011, REMA sponsored a defined benefit pension plan. It also provided subsidized postretirement benefits to some bargaining employees but generally did not provide them to non-bargaining employees. However, on January 1, 2011, the employees of REMA were transferred to GenOn Energy Services, LLC. See note 3. As such, REMA's pension plan and postretirement benefits obligations and the related deferred taxes, net of valuation allowances, were distributed to GenOn on January 1, 2011.

As a result of the application of push down accounting (see notes 1 and 2), REMA's benefit plan obligations were remeasured at the time of the Merger.

The following table shows the benefit obligations, change in plan assets and funded status for the defined benefit pension and other postretirement benefit plans for 2010:

	Pension		Other Postretirement Benefits	
	Successor	Predecessor	Successor	Predecessor
	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)	(in millions)	(in millions)	(in millions)
Benefit obligation, end of period	$ 36	$ 39	$ 27	$ 32
Change in plan assets:				
Fair value of plan assets, beginning of period	$ 26	$ 22	$ —	$ —
Employer contributions	—	1	—	1
Benefits paid	—	(1)	—	(1)
Return on plan assets	1	4	—	—
Fair value of plan assets, end of period	$ 27	$ 26	$ —	$ —
Funded Status:				
Underfunded at measurement date	$ (9)	$ (13)	$ (27)	$ (32)

Amounts recognized in the consolidated balance sheet for pension and other postretirement benefit plan obligations at December 31, 2010 are:

	Pension	Other Postretirement Benefits
	(in millions)	
Current liabilities	$ —	$ (2)
Noncurrent liabilities	(9)	(25)
Total liabilities	$ (9)	$ (27)

The accumulated benefit obligation exceeded the fair value of plan assets at December 31, 2010. The total accumulated benefit obligation for the pension plan was $33 million at December 31, 2010.

Amounts recognized in other comprehensive income (loss) and accumulated other comprehensive income (loss) for the defined benefit pension and other postretirement benefit plans were:

	Pension	Other Postretirement Benefits	
	Net (Loss) Gain	Net (Loss) Gain	Prior Service (Cost) Credit
	(in millions)	(in millions)	
Predecessor			
Balance, December 31, 2009	$ (5)	$ 3	$ (2)
Deferred Benefits	(3)	(13)	13
Amortization	—	—	1
Total amount recognized in other comprehensive loss	(3)	(13)	14
Balance, December 2, 2010[(1)]	$ (8)	$ (10)	$ 12
Successor			
Balance, December 2, 2010[(1)]	$ —	$ —	$ —
Deferred Benefits	2	—	—
Total amount recognized in other comprehensive income	2	—	—
Balance, December 31, 2010	2	—	—
Distribution to GenOn	(2)	—	—
Balance, December 31, 2011	$ —	$ —	$ —

(1) As a result of the application of push down accounting, the amounts remaining in accumulated other comprehensive loss at the time of the Merger were written off in accordance with applicable accounting guidance.

During November 2010, REMA entered into a new collective bargaining agreement with certain of its employees. The new agreement provided for changes that were aligned closer to the benefits offered to other participating employees. The negotiation resulted in a remeasurement of the liability related to postretirement benefits for these union employees. In performing the remeasurement, REMA used an updated discount rate of 4.57% as compared to the discount rate of 5.50% used in REMA's previous measurement at December 31, 2009, but did not adjust any other valuation assumptions as a result of the remeasurement. REMA recorded the effects of the plan changes during November 2010 and recognized a reduction in other postretirement liabilities of $14 million and a decrease in accumulated other comprehensive loss of $14 million on the consolidated balance sheet.

The net periodic benefit cost of REMA's pension and other postretirement benefit plans for 2010 was:

	Pension		Other Postretirement Benefits	
	Successor	Predecessor	Successor	Predecessor
	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)	(in millions)	(in millions)	(in millions)
Net periodic benefit cost	$ —	$ 2	$ —	$ 3

Assumptions

The discount rates used at December 31, 2010, were determined based on individual bond-matching models comprised of portfolios of high quality corporate bonds with projected cash flows and maturity dates reflecting the expected time horizon during which that benefit will be paid. Bonds included in the model portfolios are from a cross-section of different issuers, are AA-rated or better, and are non-callable so that the yield to maturity can be attained without intervening calls.

The weighted average assumptions used for measuring pension and other postretirement benefit plan obligations at December 31, 2010 and December 2, 2010 were:

	Pension		Other Postretirement Benefits	
	Successor	**Predecessor**	**Successor**	**Predecessor**
	December 31, 2010	**December 2, 2010**	**December 31, 2010**	**December 2, 2010**
Discount rate	5.08%	4.81%	4.60%	4.57%
Rate of compensation increase	3.0%	3.0%	N/A	N/A

The weighted average assumptions used for REMA's net periodic pension and other postretirement benefit costs during each period were:

	Pension		Other Postretirement Benefits	
	Successor	**Predecessor**	**Successor**	**Predecessor**
	December 3, 2010 through December 31, 2010	**January 1, 2010 through December 2, 2010**	**December 3, 2010 through December 31, 2010**	**January 1, 2010 through December 2, 2010**
Discount rate	4.81%	5.5%	4.57%	5.5%
Rate of compensation increase	3.0%	3.0%	N/A	N/A
Expected long-term rate of return on plan assets	7.5%	7.5%	N/A	N/A

In determining the long-term rate of return for plan assets, REMA evaluated historic and current market factors such as inflation and interest rates before determining long-term capital market assumptions. REMA also considered the effects of diversification and portfolio rebalancing. To check for reasonableness and appropriateness, REMA reviewed data about other companies, including their historic returns.

For purposes of expense recognition, REMA used a market-related value of assets that recognized the difference between the expected return and the actual return on plan assets over a five-year period. Unrecognized asset gains or losses associated with its plan assets would be recognized in the calculation of the market-related value of assets and subject to amortization in future periods.

REMA's assumed healthcare cost trend rates used to measure the expected cost of benefits covered by its other postretirement benefit plan for 2010 were:

Assumed medical inflation rate for next year	8.0%
Assumed ultimate medical inflation rate	5.5%
Year in which the ultimate trend rate is reached	2017

A one-percentage-point change in assumed health care cost trend rates would have the following effects at December 31, 2010:

	One-Percentage Point	
	Increase	**Decrease**
	(in millions)	
Effect on service and interest cost	$ —	$ —
Effect on accumulated postretirement benefit obligation	(2)	2

Fair Value Hierarchy of Plan Assets

REMA was required to classify the fair value measurements of plan assets according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values based on

the observability of the inputs used in the valuation techniques for a fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). REMA's plan assets were invested in open-end mutual funds. The shares of mutual funds were valued at quoted market prices in an active market (based on the redeemable net asset value of the fund) and were classified within Level 1 of the fair value hierarchy.

The following table presents plan assets measured at fair value at December 31, 2010, by category based on the nature of the underlying funds:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
	(in millions)			
Asset Categories:				
Investment Funds:				
United States equities[(1)]	$ 10	$ —	$ —	$ 10
Non-United States equities[(2)]	9	—	—	9
Fixed income securities[(3)]	8	—	—	8
Total	$ 27	$ —	$ —	$ 27

(1) Comprised of large-cap stocks.
(2) Comprised of large-cap stocks and multi-cap stocks.
(3) Comprised primarily of U.S. corporate bonds and U.S. government bonds.

Employee Savings Plan

Savings plan benefit expense included in operations and maintenance—affiliate in 2011 and operations and maintenance in 2010 is:

	Successor		Predecessor
	2011	December 3, 2010 through December 31, 2010	January 1, 2010 through December 2, 2010
	(in millions)		(in millions)
Savings plan benefit expense[(1)]	$ 4	$ —	$ 3

(1) Includes matching, fixed profit sharing and discretionary profit sharing contributions.

8. Commitments

REMA has made firm commitments to buy materials and services in connection with its ongoing operations and has provided cash collateral or financial guarantees relative to some of its investments.

(a) Commitments.

In addition to debt with GenOn and other obligations in the consolidated balance sheets, REMA has the following annual commitments under various agreements at December 31, 2011, related to its operations:

	Off-Balance Sheet Arrangements and Contractual Obligations by Year						
	Total	2012	2013	2014	2015	2016	>5 Years
	(in millions)						
REMA operating leases	$ 818	$ 56	$ 64	$ 64	$ 56	$ 61	$ 517
Fuel commitments	164	150	14	—	—	—	—
Other	17	16	1	—	—	—	—
Total commitments	$ 999	$ 222	$ 79	$ 64	$ 56	$ 61	$ 517

REMA's contractual obligations table does not include the derivative obligations reported at fair value (other than fuel supply commitments), which are discussed in note 4 and the asset retirement obligations, which are discussed in note 5.

REMA Operating Leases

REMA leases 16.45% and 16.67% interests in the Conemaugh and Keystone baseload facilities, respectively, through 2034 and expects to make payments through 2029. REMA also leases a 100% interest in the Shawville baseload facility through 2026 and expects to make payments through that date. At the expiration of these leases, there are several renewal options related to fair value. REMA is accounting for these leases as operating leases and recognizes rent expense on a straight-line basis. Rent expense totaled $35 million, $3 million and $55 million during 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, respectively. At December 31, 2011, REMA has paid $18 million of lease payments in excess of rent expense recognized, which is recorded in prepaid rent on the consolidated balance sheet. At December 31, 2010 there was no prepaid lease recorded as a result of the fair value adjustments that were pushed down to REMA in conjunction with the Merger. See note 1 for additional information regarding predecessor and successor reporting. REMA operates the Conemaugh and Keystone facilities under five-year agreements that expire in December 2015 that, subject to certain provisions and notifications, could be terminated annually with one year's notice. REMA is reimbursed by the other owners for the cost of direct services provided to the Conemaugh and Keystone facilities. Additionally, REMA received fees of $10 million, $1 million and $8 million during 2011, December 3, 2010 through December 31, 2010 and January 1, 2010 through December 2, 2010, respectively. The fees, which are recorded in operations and maintenance expense in the consolidated statements of operation, are primarily to cover REMA's administrative support costs of providing these services.

At December 31, 2011, the total notional minimum lease payments for the remaining terms of the leases aggregated $818 million and the aggregate termination value for the leases was $735 million, which generally decreases over time. REMA leases the Conemaugh, Keystone and Shawville facilities from third party owner lessors. These owner lessors each own the undivided interests in these baseload facilities. Equity funding by the owner participants plus transaction expenses paid by the owner participants totaled $169 million. The issuance and sale of pass through certificates raised the remaining $851 million needed for the owner lessors to acquire the undivided interests.

The pass through certificates are not direct obligations of REMA. Each pass through certificate represents a fractional undivided interest in one of the pass through trusts formed pursuant to three separate pass through trust agreements between REMA and Deutsche Bank Trust Company Americas, as pass through trustee. The property of the pass through trusts consists of lessor notes. The lessor notes issued by an owner lessor are secured by that owner lessor's undivided interest in the lease facilities and its rights under the related lease and other financing documents.

REMA's lease documents restrict its ability to, among other actions, (a) encumber assets, (b) enter into business combinations or divest assets, (c) incur additional debt, (d) pay dividends or subordinated obligations, (e) enter into transactions with affiliates on other than an arm's length basis or (f) materially change its business. With respect to REMA's ability to pay dividends or subordinated obligations, REMA is not permitted to make any distributions and other restricted payments unless: (a) it satisfies the fixed charge coverage ratio for the most recently ended period of four fiscal quarters; (b) it is projected to satisfy the fixed charge coverage ratio for each of the two following periods of four fiscal quarters, commencing with the fiscal quarter in which such payment is proposed to be made; and (c) no significant lease default or event of default has occurred and is continuing. At

December 31, 2011, REMA was limited by the covenant restricting dividends and the payment of subordinated obligations.

Shawville. In August 2010, the PADEP issued a renewed national pollutant discharge elimination system permit effective September 2010 that contains discharge limits for the leased Shawville generating facility that require installation of cooling towers or reduction in plant operation by September 1, 2013. The Pennsylvania Fish & Boat Commission and REMA appealed the permit to the Pennsylvania Environmental Hearing Board. REMA entered into an agreement that resulted in a permit revision that delays this requirement until July 2015. In February 2012, the Sierra Club appealed the permit revision to the Pennsylvania Environmental Hearing Board.

REMA has recently completed an analysis of the cost of environmental controls required for the Shawville facility, including the installation of cooling towers. After evaluation of the forecasted energy and capacity prices, expected capital expenditures, operating costs, property taxes and other factors, REMA concluded that the forecasted returns on investments necessary to comply with the environmental regulations are insufficient. Accordingly, REMA plans to place the coal-fired units at the Shawville facility, which is leased, in a long-term protective layup in April 2015. Under the lease agreement for Shawville, REMA's obligations generally are to pay the required rent and to maintain the leased assets in accordance with the lease documentation, including in compliance with prudent competitive electric generating industry practice and applicable laws. REMA will continue to evaluate its options under the lease, including termination of the lease for economic obsolescence and/or keeping the facility in long-term protective layup during the term of the lease. REMA does not think that the lease documentation mandates that REMA operates the facility continuously and, so long as REMA is not operating it, REMA does not think that the installation of cooling towers, emissions controls and other expenditures would be required under the lease documentation. During the long-term protective layup of the Shawville facility, REMA would continue to pay the required rent and to maintain the facility as required by the lease. See note 10 for a discussion of other generating facilities that REMA expects to deactivate in 2015.

Fuel Commitments

REMA has commitments under coal agreements of various quantities and durations. At December 31, 2011, the maximum remaining term under any individual fuel supply contract is three years.

Other

Other primarily includes open purchase orders less invoices received related to general procurement of products and services purchased in the ordinary course of business. These include construction, maintenance and labor activities at REMA's generating facilities. Other also includes liabilities related to accounting for uncertainty in income taxes.

(b) Guarantees and Indemnifications.

REMA enters into contracts that include indemnification and guarantee provisions. In general, REMA enters into contracts with indemnities for matters such as breaches of representations and warranties and covenants contained in the contract and/or against certain specified liabilities. Examples of these contracts include asset purchase and sales agreements, service agreements and procurement agreements.

Except as otherwise noted, REMA is unable to estimate its maximum potential exposure under these agreements until an event triggering payment occurs. REMA does not expect to make any material payments under these agreements.

9. Litigation and Other Contingencies

REMA is involved in some legal proceedings. In certain cases, plaintiffs seek to recover large or unspecified damages, and some matters may be unresolved for several years. REMA cannot currently determine the outcome of the proceedings described below or estimate the reasonable amount or range of potential losses, if any, and therefore has not made any provision for such matters unless specifically noted below.

Environmental Matters

New Source Review Matters. The EPA and various states are investigating compliance of coal-fueled electric generating facilities with the pre-construction permitting requirements of the Clean Air Act known as "new source review." In the past decade, the EPA has made information requests concerning the Conemaugh, Keystone, Portland, Shawville and Titus generating facilities. REMA is corresponding or has corresponded with the EPA regarding all of these requests. The EPA agreed to share information relating to its investigations with state environmental agencies. In January 2009, REMA received a notice of violation (NOV) from the EPA alleging that past work at its Keystone, Portland and Shawville generating facilities violated regulations regarding new source review.

In December 2007, the New Jersey Department of Environmental Protection (NJDEP) filed suit against REMA in the United States District Court for the Eastern District of Pennsylvania, alleging that new source review violations occurred at the Portland generating facility. The suit seeks installation of "best available" control technologies for each pollutant, to enjoin REMA from operating the generating facility if it is not in compliance with the Clean Air Act and civil penalties. The suit also names three past owners of the plant as defendants. In March 2009, the Connecticut Department of Environmental Protection became an intervening party to the suit.

REMA thinks that the work listed by the EPA and the work subject to the NJDEP suit were conducted in compliance with applicable regulations. However, any final finding that REMA violated the new source review requirements could result in fines, penalties or significant capital expenditures associated with the implementation of emissions reductions on an accelerated basis. Most of these work projects were undertaken before REMA's ownership or lease of those facilities.

In addition, the NJDEP filed two administrative petitions with the EPA in 2010 alleging that REMA's Portland generating facility's emissions were significantly contributing to nonattainment and/or interfering with the maintenance of certain NAAQS in New Jersey. In November 2011, the EPA published a final rule in response to one of the petitions that will require REMA to reduce its maximum allowable SO_2 emissions from the two coal-fired units by about 60% starting in January 2013 and by about 80% starting in January 2015. In January 2012, REMA challenged the rule in the United States Court of Appeals for the Third Circuit. In 2013 and 2014, REMA has several compliance options that include using lower sulfur coals (although this may at times reduce how much REMA is able to generate) or running just one unit at a time. Starting in January 2015, these units will be subject to more stringent rate limits, which will require either material capital expenditures and higher operating costs or the retirement of these two units. See note 10.

Conemaugh Alleged Clean Streams Law Violations. The PADEP has alleged that several violations of Pennsylvania Clean Streams Law occurred at the Conemaugh generating facility. REMA expects to resolve these issues by entering into an agreement with the PADEP that would obligate REMA to pay a civil penalty of $500,000. REMA would be responsible for 16.45% of this amount.

Keystone Wastewater Settlement with PADEP. In November 2011, the PADEP informed REMA that it believed that REMA had violated the Pennsylvania Clean Streams Law by (a) improperly permitting improvements to the plant required by the construction of scrubbers and (b) discharging stormwater associated with certain improvements. In March 2012, REMA settled this matter with the PADEP by agreeing to pay a civil penalty of $120,000. REMA is responsible for 16.67% of this amount.

Ash Disposal Facility Closures. REMA is responsible for environmental costs related to the future closures of several ash disposal facilities. REMA has accrued the estimated discounted costs ($16 million at December 31, 2011 and 2010) associated with these environmental liabilities as part of the asset retirement obligations. See notes 1 and 5.

Remediation Obligations. REMA is responsible for environmental costs related to site contamination investigations and remediation requirements at four generating facilities in New Jersey. REMA has accrued the estimated long-term liability for the remediation costs of $6 million and $7 million at December 31, 2011 and 2010, respectively.

10. Subsequent Event

Expected Retirements or Long-Term Protective Layup of Generating Facilities. REMA is subject to extensive environmental regulation by federal, state and local authorities under a variety of statutes, regulations and permits that address discharges into the air, water and soil; and the proper handling of solid, hazardous and toxic materials and waste. Complying with increasingly stringent environmental requirements involves significant capital and operating expenses. To the extent forecasted returns on investments necessary to comply with environmental regulations are insufficient for a particular facility, REMA plans to deactivate that facility. In determining the forecasted returns on investments, REMA factors in forecasted energy and capacity prices, expected capital expenditures, operating costs, property taxes and other factors. REMA currently expects to deactivate the following generating capacity, primarily coal-fired units, in the referenced years: Titus (243 MW) 2015, Portland (401 MW) 2015, Shawville (597 MW) place in long-term protective layup in 2015 and Glen Gardner (160 MW) 2015. At December 31, 2011, the aggregate carrying value of property, plant and equipment and materials and supplies inventory for these generating facilities was $154 million and $35 million, respectively.