RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC

Report of Independent Registered Public Accounting Firm

The Board of Directors and Member
Reliant Energy Northeast Generation, Inc., Sole Member of Reliant Energy Mid-Atlantic Power Holdings, LLC:

We have audited the accompanying consolidated balance sheets of Reliant Energy Mid-Atlantic Power Holdings, LLC and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, member's equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included 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 Reliant Energy Mid-Atlantic Power Holdings, LLC and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 2(d) and 2(e) to the consolidated financial statements, the Company changed its accounting in 2008 for fair value measurements of financial instruments and fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement and related amounts recognized upon payment or receipt of cash collateral, respectively. In addition, as discussed in note 8(d) to the consolidated financial statements, the Company changed its accounting for income tax uncertainties in 2007.

KPMG LLP

Houston, Texas
February 28, 2009

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	2008	2007	2006
		(thousands of dollars)	
Revenues:			
Revenues	$ 39,336	$ (10,235)	$ 26,107
Revenues – affiliates	879,332	696,856	539,701
Total	918,668	686,621	565,808
Expenses:			
Cost of sales	347,761	244,695	239,686
Cost of sales – affiliates	11,535	9,930	15,329
Operation and maintenance	112,507	104,600	91,915
Operation and maintenance – affiliates	59,431	57,831	48,155
Facilities leases	59,848	59,848	59,848
General and administrative – affiliates	45,987	44,029	43,017
Gains on sales of assets and emission allowances, net	(1,247)	(1,969)	(71,323)
Goodwill impairment	3,635	—	—
Depreciation and amortization	74,960	88,449	71,315
Total operating expense	714,417	607,413	497,942
Operating Income	204,251	79,208	67,866
Other Income (Expense):			
Other, net	—	—	1
Interest expense	(1,239)	(1,230)	(1,095)
Interest expense – affiliates	(58,935)	(70,485)	(68,921)
Interest income	396	837	655
Total other expense	(59,778)	(70,878)	(69,360)
Income (Loss) Before Income Taxes	144,473	8,330	(1,494)
Income tax expense (benefit)	59,459	5,262	(9,842)
Net Income	$ 85,014	$ 3,068	$ 8,348

See Notes to the Consolidated Financial Statements

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(thousands of dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 29,713	$ 28,536
Restricted cash	1,632	1,663
Accounts receivable	5,712	4,875
Receivables from affiliates, net	59,770	59,180
Inventory	90,241	81,382
Prepaid lease	59,030	59,030
Derivative assets	34,169	71,946
Accumulated deferred income taxes	29,612	11,319
Prepayments and other current assets	8,591	7,227
Total current assets	318,470	325,158
Property, Plant and Equipment, net	723,478	681,675
Other Assets:		
Goodwill, net	—	3,635
Other intangibles, net	98,727	98,732
Derivative assets	42,126	106,839
Accumulated deferred income taxes	19,145	48,968
Prepaid lease	273,374	270,133
Other	33,432	40,820
Total other assets	466,804	569,127
Total Assets	$ 1,508,752	$ 1,575,960
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 96	$ 89
Accounts payable, principally trade	38,134	28,543
Subordinated accounts payable to affiliates, net	161,126	193,897
Subordinated interest payable to affiliates, net	26,638	29,800
Derivative liabilities	103,176	97,186
Other	50,072	18,389
Total current liabilities	379,242	367,904
Other Liabilities:		
Derivative liabilities	136,183	227,807
Benefit obligations	49,648	39,289
Taxes payable to Reliant Energy, Inc.	27,612	—
Other	29,511	19,597
Total other liabilities	242,954	286,693
Subordinated Note Payable to Affiliate	543,563	618,658
Long-term Debt	546	642
Commitments and Contingencies		
Member's Equity:		
Common stock; no par value (1,000 shares authorized, issued and outstanding)	—	—
Additional paid-in capital	284,672	284,672
Retained earnings	110,307	82,455
Accumulated other comprehensive loss	(52,532)	(65,064)
Total member's equity	342,447	302,063
Total Liabilities and Member's Equity	$ 1,508,752	$ 1,575,960

See Notes to the Consolidated Financial Statements

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2008	2007	2006
		(thousands of dollars)	
Cash Flows from Operating Activities:			
Net income	$ 85,014	$ 3,068	$ 8,348
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Goodwill impairment	3,635	—	—
Depreciation and amortization	74,960	88,449	71,315
Deferred income taxes	13,670	4,341	(14,112)
Net changes in energy derivatives	45,636	35,711	(5,422)
Gains on sales of assets and emission allowances, net	(1,247)	(1,969)	(71,323)
Other, net	(4)	(27)	(59)
Changes in other assets and liabilities:			
Accounts receivable	(837)	(280)	(140)
Accounts receivable from affiliates, net	13,859	(47,624)	24,823
Inventory	(8,859)	(693)	291
Prepaid lease	(3,241)	(5,805)	(4,916)
Accounts payable	2,253	3,976	272
Other current assets	(1,382)	246	1,602
Other current liabilities	3,362	199	4,328
Other assets	7,389	337	(9,925)
Subordinated accounts payable to affiliates, net	(32,588)	42,531	30,393
Subordinated interest payable to affiliates, net	(3,162)	(33,787)	(41,172)
Income taxes payable/receivable	459	698	(17,051)
Taxes payable to Reliant Energy, Inc.	27,612	—	—
Other liabilities	2,359	3,029	(1,737)
Net cash provided by (used in) operating activities	228,888	92,400	(24,485)
Cash Flows from Investing Activities:			
Capital expenditures	(70,218)	(33,172)	(14,360)
Proceeds from sales of assets, net	614	124	1,238
Proceeds from sales of emission allowances	518	628	1,141
Proceeds from sales of emission allowances – affiliates	74	3,744	73,140
Purchases of emission allowances – affiliates	(26,473)	(50,799)	(50,467)
Restricted cash	31	(1,663)	–
Net cash provided by (used in) investing activities	(95,454)	(81,138)	10,692
Cash Flows from Financing Activities:			
Payments on subordinated note payable to affiliate	(75,095)	—	—
Distributions to Reliant Energy, Inc.	(57,162)	—	—
Net cash used in financing activities	(132,257)	—	—
Net Change in Cash and Cash Equivalents	1,177	11,262	(13,793)
Cash and Cash Equivalents at Beginning of Period	28,536	17,274	31,067
Cash and Cash Equivalents at End of Period	$ 29,713	$ 28,536	$ 17,274
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest paid to affiliate (net of amounts capitalized)	$ 81,105	$ 91,884	$ 107,364
Interest paid to third parties	247	286	1,338
Income taxes paid (net of income tax refunds received)	18,266	221	21,322
Non-cash Disclosure:			
Contributions from Reliant Energy, Inc., net	—	—	33,152

See Notes to the Consolidated Financial Statements

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock				Accumulated Other Comprehensive Income (Loss)					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Deferred Derivative Gains (Losses)	Benefits Actuarial Net Gain (Loss)	Benefits Net Prior Service Costs	Total Accumulated Other Comprehensive Income (Loss)	Total Member's Equity	Comprehensive Income (Loss)
	(thousands of dollars)									
Balance, December 31, 2005	1,000	$ —	$ 251,520	$ 71,039	$ (130,879)	$ –	$ –	$ (130,879)	$ 191,680	
Net income				8,348					8,348	$ 8,348
Contributions from Reliant Energy, Inc., net			33,152						33,152	
Deferred loss from cash flow hedges, net of tax of $13 million					18,061			18,061	18,061	18,061
Reclassification of net deferred loss from cash flow hedges into net income, net of tax of $22 million					31,743			31,743	31,743	31,743
Comprehensive income										$ 58,152
Adjustment to initially apply FASB Statement No. 158, net of tax of $2 million and $2 million						(2,861)	(2,737)	(5,598)	(5,598)	
Balance, December 31, 2006	1,000	$ —	$ 284,672	$ 79,387	$ (81,075)	$ (2,861)	$ (2,737)	$ (86,673)	$ 277,386	
Net income				3,068					3,068	$ 3,068
Deferred gain from cash flow hedges, net of tax of $3 million					2,929			2,929	2,929	2,929
Reclassification of net deferred loss from cash flow hedges into net income, net of tax of $9 million					12,802			12,802	12,802	12,802
Reclassification of net prior service costs into net income, net of tax of $0							593	593	593	593
Reclassification of actuarial net loss into net income, net of tax of $0						40		40	40	40
Deferred benefits, net of tax of $1 million and $2 million						2,851	2,394	5,245	5,245	5,245
Comprehensive income										$ 24,677
Balance, December 31, 2007	1,000	$ —	$ 284,672	$ 82,455	$ (65,344)	$ 30	$ 250	$ (65,064)	$ 302,063	

(continued)

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)
(Thousands of Dollars)

(continued)

	Common Stock				Accumulated Other Comprehensive Income (Loss)					
	Shares	Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Deferred Derivative Gains (Losses)	Benefits Actuarial Net Gain (Loss)	Benefits Net Prior Service Costs	Total Accumulated Other Comprehensive Income (Loss)	Total Member's Equity	Comprehensive Income (Loss)
	(thousands of dollars)									
Balance, December 31, 2007	1,000	$ —	$ 284,672	$ 82,455	$ (65,344)	$ 30	$ 250	$ (65,064)	$ 302,063	
Net income				85,014					85,014	$ 85,014
Distributions to Reliant Energy, Inc.				(57,162)					(57,162)	
Reclassification of net deferred loss from cash flow hedges into net income, net of tax of $11 million					17,388			17,388	17,388	17,388
Reclassification of net prior service costs into net income, net of tax of $0							419	419	419	419
Reclassification of actuarial net loss into net income, net of tax of $0						46		46	46	46
Deferred benefits, net of tax of $4 million						(5,321)		(5,321)	(5,321)	(5,321)
Comprehensive income										$ 97,546
Balance, December 31, 2008	1,000	$ —	$ 284,672	$ 110,307	$ (47,956)	$ (5,245)	$ 669	$ (52,532)	$ 342,447	

See Notes to the Consolidated Financial Statements

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

Background. "REMA LLC" refers to Reliant Energy Mid-Atlantic Power Holdings, LLC, a Delaware limited liability company. "REMA" refers to REMA LLC and its consolidated subsidiaries. "Reliant Energy" refers to Reliant Energy, Inc. and its consolidated subsidiaries. REMA LLC was formed in December 1998 and is an indirect subsidiary of Reliant Energy Power Generation, Inc., a wholly-owned subsidiary of Reliant Energy.

REMA owns or leases interests in 16 operating electric generation plants in Pennsylvania, New Jersey and Maryland with an annual average net generating capacity of approximately 3,431 megawatts (MW).

Review of Strategic Alternatives. In October 2008, Reliant Energy's Board of Directors initiated a process to review strategic alternatives and formed a special committee to oversee this process. Reliant Energy is exploring a full range of possible strategic alternatives to enhance stockholder value, including, among other possibilities, the sale of all or substantially all of Reliant Energy (including REMA), as well as the sale of some or all of its retail business.

Basis of Presentation. These consolidated statements include all revenues and costs directly attributable to REMA including costs for facilities and costs for functions and services performed by Reliant Energy and charged to REMA. All significant intercompany transactions have been eliminated.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates and Market Risk and Uncertainties.

Management makes estimates and assumptions to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) that affect:

- the reported amount of assets, liabilities and equity;
- the reported amounts of revenues and expenses; and
- disclosure of contingent assets and liabilities at the date of the financial statements.

REMA evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which REMA believes to be reasonable under the circumstances. REMA adjusts such estimates and assumptions when facts and circumstances dictate.

REMA's critical accounting estimates include: (a) fair value of derivative assets and liabilities; (b) fair value of REMA for assessing impairments of recorded goodwill; (c) fair value of property, plant and equipment; (d) loss contingencies and (e) deferred tax assets, valuation allowances and tax liabilities. Actual results could differ from the estimates.

REMA is subject to various risks inherent in doing business. See notes 2(c), 2(d), 2(e), 2(f), 2(h), 2(i), 2(m), 2(n), 2(o), 2(p), 4, 5, 6, 7, 8, 9 and 10.

(b) Principles of Consolidation.

REMA LLC includes its accounts and those of its wholly-owned subsidiaries in its consolidated financial statements. REMA does not consolidate three power generating facilities (see note 9(a)), which are under operating leases.

(c) Power Generation and Capacity Revenues.

REMA records gross revenues from the sale of electricity and other energy services under the accrual method. Electric power and other energy services are sold at market-based prices through existing power exchanges, related party affiliates or third party contracts. Energy sales and services that have been delivered but not billed by period end are estimated. During 2008, 2007 and 2006, REMA recognized $(1) million, $(46) million and $4 million in unrealized gains (losses) on energy derivatives included in revenues from third parties. See notes 2(e) and 5.

(d) Fair Value Measurements.

Summary. Effective January 1, 2008, REMA adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157) on a prospective basis for its derivative assets and liabilities. In connection with the adoption, no cumulative effect of an accounting change was recognized. For non-financial assets and liabilities, the adoption of SFAS No. 157 was deferred until January 1, 2009. See note 2(s).

Fair Value Hierarchy and Valuation Techniques. REMA applies recurring fair value measurements to its derivative assets and liabilities. In determining fair value, REMA generally uses the 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. These inputs can be readily observable, market corroborated, or generally unobservable internally-developed inputs. Based on the observability of the inputs used in the valuation techniques, the derivative assets and liabilities are classified as follows:

Level 1: Level 1 represents unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: 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 includes over-the-counter (OTC) derivative instruments such as forwards.

Level 3: This category includes energy derivative instruments whose fair value is estimated based on prices in inactive markets that are not observable. REMA's OTC derivative instruments that are transacted in less liquid markets with limited pricing information are included in Level 3, which are coal contracts.

Nonperformance Risk on Derivative Liabilities. In accordance with SFAS No. 157, fair value measurement of REMA's derivative liabilities reflects the nonperformance risk related to that liability, which is its own credit risk. REMA derives its nonperformance risk by applying Reliant Energy, Inc.'s credit default swap spread against the respective derivative liability. As of December 31, 2008, REMA had $2 million in reserves for nonperformance risk on derivative liabilities. This change in accounting estimate had an impact during 2008 as follows (income (loss)):

	2008	
	Income before Income Taxes	**Net Income**
	(in millions)	
Total derivative liabilities	$ 2 [1]	$ 1

(1) Recorded in cost of sales as unrealized.

Fair Value of Derivative Instruments.

	December 31, 2008				
	Level 1	Level 2	Level 3	Reclassifications[1]	Total Fair Value
			(in millions)		
Total derivative assets	$ —	$ 78	$ —	$ (2) [1]	$ 76
Total derivative liabilities	—	208	33	(2) [1]	239

(1) Reclassifications are required to reconcile to FIN 39-1 consolidated balance sheet presentation.

The following is a reconciliation of changes in fair value of net derivative assets and liabilities classified as Level 3:

	2008 Net Derivatives (Level 3)
	(in millions)
Balance, January 1, 2008	$ 12
Total gains (losses) realized/unrealized:	
Included in earnings	36 [1]
Purchases, issuances and settlements (net)	(81)
Transfers in and/or out of Level 3 (net)	— [2]
Balance, December 31, 2008	$ (33)
Changes in unrealized gains/losses relating to derivative assets and liabilities still held at December 31, 2008	1 [1]

(1) Recorded in cost of sales.
(2) Represents fair value as of December 31, 2007.

See notes 2(e) and 5.

(e) Derivatives and Hedging Activities.

REMA accounts for its derivatives instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities," as amended (SFAS No. 133).

Changes in commodity prices prior to the energy delivery period are inherent in REMA's business. However, REMA believes the benefits of generally hedging its generation assets do not justify the costs, including collateral postings. Accordingly, REMA may enter selective hedges, including originated transactions, based on its assessment of (a) market fundamentals to increase the return from its generation assets and (b) operational and market limitations requiring REMA to enter into fuel transactions to manage its generation assets.

For REMA's risk management activities, it uses both derivative and non-derivative contracts that provide for settlement in cash or by delivery of a commodity. Fixed-price derivatives are used to fix the price for a portion of these transactions. The primary types of derivative instruments REMA uses are forwards, futures, swaps and options. REMA accounts for its derivatives under one of three accounting methods (mark-to-market, accrual (under the normal purchase/normal sale exception to fair value accounting) or cash flow hedge accounting) based on facts and circumstances. The fair values of derivative activities are determined by (a) prices actively quoted, (b) prices provided by other external sources or (c) prices based on models and other valuation methods. See note 2(d) for discussion on fair value measurements.

A derivative is recognized at fair value in the balance sheet whether or not it is designated as a hedge, except for derivative contracts designated as normal purchase/normal sale exceptions, which are not in the consolidated balance sheet or results of operations prior to settlement resulting in accrual accounting treatment.

Realized gains and losses on derivatives contracts not held for trading purposes are reported either on a net or gross basis based on the relevant facts and circumstances. Hedging transactions that do not physically flow are included in the same caption as the items being hedged. A summary of REMA's derivative activities and classification in its results of operations is:

Instrument	**Purpose for Holding or Issuing Instrument**[(1)]	**Transactions that Physically Flow/Settle**	**Transactions that Financially Settle**[(2)]
Power futures, forward, swap and option contracts	Power sales	Revenues	Revenues
	Power purchases	Cost of sales	Revenues
Natural gas and fuel futures, forward, swap and option contracts	Natural gas and fuel purchases	Cost of sales	Cost of sales

(1) The purpose for holding or issuing does not impact the accounting method elected for each instrument.
(2) Includes classification for mark-to-market derivatives and amounts reclassified from accumulated other comprehensive income (loss) related to cash flow hedges.

Unrealized gains and losses on energy derivatives consist of both gains and losses on energy derivatives during the current reporting period for derivative assets or liabilities that have not settled as of the balance sheet date and the reversal of unrealized gains and losses from prior periods for derivative assets or liabilities that settled prior to the balance sheet date but during the current reporting period.

In addition to market risk, REMA is exposed to credit and operational risk. Reliant Energy has a risk control framework, to which REMA is subject, to manage these risks, which include: (a) measuring and monitoring these risks, (b) review and approval of new transactions relative to these risks, (c) transaction validation and (d) portfolio valuation and reporting. REMA uses mark-to-market valuation, value-at-risk and other metrics in monitoring and measuring risk. Reliant Energy's risk control framework includes a variety of separate but complementary processes, which involve commercial and senior management and Reliant Energy's Board of Directors. See note 2(f) for further discussion of REMA's credit policy.

Cash Flow Hedges. If certain conditions are met, a derivative instrument may be designated as a cash flow hedge. Derivatives designated as cash flow hedges must have a high correlation between price movements in the derivative and the hedged item. The changes in fair value of cash flow hedges are deferred in accumulated other comprehensive income (loss), net of tax, to the extent the contracts are, or have been, effective as hedges, until the forecasted transactions affect earnings. At the time the forecasted transactions affect earnings, REMA reclassifies the amounts in accumulated other comprehensive income (loss) into earnings. REMA records the ineffective portion of changes in fair value of cash flow hedges immediately into earnings. For all other derivatives, changes in fair value are recorded as unrealized gains or losses in its results of operations.

If and when an acceptable level of correlation no longer exists, hedge accounting ceases and changes in fair value are recognized in its results of operations. If it becomes probable that a forecasted transaction will not occur, REMA immediately recognizes the related deferred gains or losses in its results of operations. The associated hedging instrument is then marked to market through its results of operations for the remainder of the contract term unless a new hedging relationship is redesignated.

Effective September 1, 2006, REMA de-designated certain cash flow hedges of coal contracts and either began utilizing the mark-to-market method of accounting or elected the normal purchase/normal sale exception. During the first quarter of 2007, REMA de-designated its remaining cash flow hedges; therefore, as of December 31, 2008 and 2007, REMA does not have any designated cash flow hedges.

Presentation of Derivative Assets and Liabilities. REMA adopted FIN 39-1 on January 1, 2008. Upon adoption it elected to present its derivative assets and liabilities on a gross basis (regardless of master netting arrangements with the same counterparty). Cash collateral amounts are also presented on a gross basis. REMA applied FIN 39-1 retrospectively for all financial statements presented.

The effect to REMA's December 31, 2007 consolidated balance sheet was as follows: (Note – only line items impacted are shown.)

	December 31, 2007	
	As Previously Reported	**Upon Adoption of FIN 39-1**
	(in millions)	
Current derivative assets	$ 12	$ 72
Total current assets	266	326
Long-term derivative assets	3	107
Total other assets	465	569
Total assets	1,412	1,576
Current derivative liabilities	38	98
Total current liabilities	308	368
Long-term derivative liabilities	124	228
Total other liabilities	182	286
Total liabilities and member's equity	1,412	1,576

(f) Credit Risk.

REMA has a credit policy that governs the management of credit risk, including the establishment of counterparty credit limits and specific transaction approvals. Credit risk is monitored daily and the financial condition of counterparties is reviewed periodically. REMA tries to mitigate credit risk by entering into contracts that permit netting and allow it to terminate upon the occurrence of certain events of default. REMA measures credit risk as the replacement cost for its derivative positions plus amounts owed for settled transactions.

REMA's credit exposure is based on its derivative assets and accounts receivable from counterparties, after taking into consideration netting within each contract and any master netting contracts with counterparties. REMA provides reserves for non-investment grade counterparties representing a significant portion of its credit exposure. As of December 31, 2008, one investment grade counterparty represented 100% ($1 million) of REMA's credit exposure. As of December 31, 2007, one non-investment grade counterparty represented 100% ($10 million) of REMA's credit exposure. As of December 31, 2008 and 2007, REMA held no collateral from these counterparties.

(g) General and Administrative Expenses – Affiliates.

General and administrative expenses from affiliates include, among other items, (a) selling and marketing, (b) bad debt expense, (c) financial services, (d) legal costs, (e) regulatory costs and (f) certain benefit costs. See note 3.

(h) Property, Plant and Equipment and Depreciation Expense.

REMA computes depreciation using the straight-line method based on estimated useful lives. Depreciation expense was $35 million, $33 million and $32 million during 2008, 2007 and 2006, respectively.

	Estimated Useful Lives (Years)	December 31, 2008	December 31, 2007
		(in millions)	
Electric generation facilities	20 – 30	$ 849	$ 834
Other	3 – 26	14	11
Land		26	26
Assets under construction		93	38
Total		982	909
Accumulated depreciation		(259)	(227)
Property, plant and equipment, net		$ 723	$ 682

REMA periodically evaluates property, plant and equipment for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. The evaluation is highly dependent on the underlying assumptions of related cash flows. REMA recorded no material property, plant and equipment impairments during 2008, 2007 and 2006.

In the future, REMA could recognize impairments if its wholesale energy market outlook changes negatively. In addition, REMA's ongoing evaluation of its business could result in decisions to mothball, retire or dispose of additional generation assets, any of which could result in impairment charges.

(i) Intangible Assets and Amortization Expense.

Goodwill. REMA performs its goodwill impairment test annually on April 1 and when events or changes in circumstances indicate that the carrying value may not be recoverable. See note 4.

Other Intangibles. REMA recognizes specifically identifiable intangible assets, including emission allowances, when specific rights and contracts are acquired. REMA has no intangible assets with indefinite lives recorded as of December 31, 2008 and 2007.

(j) Income Taxes.

Federal. REMA is included in the consolidated federal income tax returns of Reliant Energy and calculates its income tax provision on a separate return basis, whereby Reliant Energy pays all federal income taxes on REMA's behalf and is entitled to any related tax savings. The difference between REMA's current federal income tax expense or benefit, as calculated on a separate return basis, and related amounts paid to/received from Reliant Energy, if any, were recorded in REMA's financial statements as adjustments to additional paid-in capital. Reliant Energy changed its funding policy in December 2006 and these differences are recorded to (a) income taxes payable to Reliant Energy, Inc. if REMA has cumulative taxable income on a separate return basis or (b) deferred tax assets if REMA has cumulative taxable losses on a separate return basis. Deferred federal income taxes reflected on REMA's consolidated balance sheet will ultimately be settled with Reliant Energy. See notes 3 and 8.

State. REMA is included in the consolidated state income tax returns of Reliant Energy. It calculates its state provision, related payables or receivables and deferred state income taxes on a separate return basis and settles the related assets and liabilities with the governmental entity or Reliant Energy based on the tax status of the applicable entities. See note 8.

(k) Capitalization of Interest Expense.

REMA capitalizes interest on capital projects greater than $10 million and under development for one year or more. During 2008, 2007 and 2006, REMA capitalized $4 million, $1 million and $0 of interest expense, respectively, relating to a scrubber project at the Keystone plant.

(l) Cash and Cash Equivalents.

REMA records all highly liquid short-term investments with maturities of three months or less as cash equivalents.

(m) Restricted Cash.

Restricted cash includes cash at certain subsidiaries, the distribution or transfer of which is restricted by financing and other agreements.

(n) Inventory.

REMA values fuel inventories at the lower of average cost or market. REMA removes these inventories as they are used in the production of electricity. During 2008, 2007 and 2006, REMA recorded $7 million, $1 million and $5 million, respectively, for lower of average cost or market adjustments in cost of sales. REMA values materials and supplies at average cost. REMA removes these inventories when they are used for repairs, maintenance or capital projects.

	December 31,	
	2008	**2007**
	(in millions)	
Materials and supplies, including spare parts	$ 50	$ 48
Coal	27	15
Heating oil	13	18
Total inventory	$ 90	$ 81

(o) 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. See note 10.

(p) Asset Retirement Obligations.

REMA's asset retirement obligations relate to future costs primarily associated with ash disposal site closures. REMA's asset retirement obligations were $8 million and $7 million as of December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, REMA has $15 million and $14 million, respectively, (classified in other long-term assets) on deposit with the state of Pennsylvania to guarantee its obligation related to future closures of ash disposal landfill sites. See note 10.

(q) Repair and Maintenance Costs for Power Generation Assets.

REMA expenses repair and maintenance costs as incurred.

(r) Deferred Lease Costs.

REMA incurred costs in connection with its sale-leaseback transactions in 2000 (see note 9(a)). These costs are deferred and amortized, using the straight-line method, over the life of the individual sale-leaseback transactions.

REMA amortized $1 million to facilities lease expense during 2008, 2007 and 2006. As of December 31, 2008 and 2007, REMA had $18 million of net deferred lease costs classified in other long-term assets in its consolidated balance sheets.

(s) New Accounting Pronouncements Net Yet Adopted.

Fair Value Measurement for Non-Financial Assets and Liabilities. For some non-financial assets and liabilities, the effective date for SFAS No. 157 fair value measurement criteria is January 1, 2009. REMA does not expect the standard to have a significant impact on its consolidated financial statements.

Disclosures about Derivatives and Hedging Activities. SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS No. 161) is an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and is intended to enhance the related qualitative and quantitative disclosures by providing for additional information about objectives, strategies, accounting treatment, volume by commodity type and credit-risk-related contingent features. SFAS No. 161 was adopted on January 1, 2009.

Disclosures about Plan Assets. The FASB issued FSP FAS 132(R)-1, "Employer's Disclosures about Postretirement Benefit Plan Assets," which is effective for 2009. In addition to enhanced disclosures regarding investment policies and strategies, this FSP will require REMA to disclose information about fair value measurements of plan assets that would be similar to the disclosures about fair value measurements required by SFAS No. 157.

(3) Related Party Transactions

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

Support Services. Reliant Energy provides commercial support, technical services and other corporate services to REMA. Reliant Energy 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 Reliant Energy provides similar services and also charges REMA for certain other services based on usage. Management believes this method of allocation is reasonable. These allocations and charges were not necessarily indicative of what would have been incurred had REMA been an unaffiliated entity. Payments to Reliant Energy for support services are subordinated to certain obligations, including the lease obligations, pursuant to the lease documents.

The following details the amounts recorded as operation and maintenance – affiliates and general and administrative – affiliates:

	2008	2007	2006
		(in millions)	
Allocated or charged by Reliant Energy	$ 100	$ 96	$ 86

Commodity Procurement and Marketing. REMA has sales to and purchases from Reliant Energy related to commodity procurement and marketing services.

	2008	2007	2006
		(in millions)	
Sales to Reliant Energy under various commodity agreements[(1)]	$ 879	$ 697	$ 540
Purchases from Reliant Energy under various commodity agreements[(2)]	10	8	13
Fees charged by Reliant Energy for these services and included in operation and maintenance – affiliates	5	5	5
Fees charged by Reliant Energy for these services and included in cost of sales – affiliates	1	2	2
Sales of emission allowances to Reliant Energy[(3)]	—	4	73
Gains on emission allowances sales to Reliant Energy[(4)]	—	1	70

(1) Recorded in revenues – affiliates.
(2) Recorded in cost of sales – affiliates.
(3) Reflects price at which Reliant Energy sold the emission allowances to third parties.
(4) Recorded in gains on sales of assets and emission allowances, net.

Subordinated Long-term Note Payable to Affiliate. REMA has a note payable to Reliant Energy. The note is due January 1, 2029 and accrues interest at a fixed rate of 9.4% per year. As of December 31, 2008 and 2007, REMA classified the related accrued interest as a current liability since REMA intends to pay the entire amount within the next 12 months from the respective dates. As of December 31, 2008 and 2007, REMA had $544 million and $619 million, respectively, outstanding under the note. Payments under this indebtedness are subordinated to certain obligations, including the lease obligations, pursuant to the lease documents.

Working Capital Note. REMA has a revolving note payable to Reliant Energy under which REMA may borrow, and Reliant Energy is committed to lend, up to $30 million for working capital needs. Borrowings under the note will be unsecured and will rank equal in priority with REMA's lease obligations. REMA may replace this note with a working capital facility from an unaffiliated lender if then permitted under Reliant Energy's debt agreements. As of December 31, 2008 and 2007, there were no borrowings outstanding under the note.

Subordinated Working Capital Facility. REMA has an irrevocably committed subordinated working capital facility with Reliant Energy. REMA may borrow under this facility to pay operating expenditures, senior indebtedness and rent, but excluding capital expenditures and subordinated obligations. In addition, Reliant Energy must make advances to REMA and REMA must obtain such advances under such facility up to the maximum available commitment under such facility from time to time if REMA's pro forma fixed charge coverage ratio does not equal or exceed 1.1 to 1.0, measured at the time rent under the leases is due. Subject to the maximum available commitment, drawings will be made in amounts necessary to permit REMA to achieve a pro forma fixed charge coverage ratio of at least 1.1 to 1.0. The amount available under the subordinated working capital facility was $120 million through January 1, 2007. Thereafter, the available amount decreased by $24 million on January 2, 2007 and decreases by $24 million each subsequent year through its expiration in 2011. As of December 31, 2008 and 2007, the amount available under the facility was $72 million and $96 million, respectively. As of December 31, 2008 and 2007, there were no borrowings outstanding under this facility.

Letters of Credit. Reliant Energy has posted letters of credit on behalf of REMA related to its lease obligations. See notes 6 and 9(a).

Cash Distributions to Reliant Energy.

	2008	2007	2006
		(in millions)	
REMA LLC cash distributions to Reliant Energy	$ 57	$ —	$ —

Income Taxes. See discussion in note 2(j) regarding REMA's policy with regards to income taxes.

	2008	2007	2006
		(in millions)	
Non-cash federal income tax contributions from Reliant Energy, Inc., net	$ —	$ —	$ 33

As of December 31, 2008 and 2007, REMA has $28 million and $0, respectively, recorded as long-term taxes payable to Reliant Energy, Inc., which includes accrued interest payable of $1 million and $0, respectively. REMA has incurred interest expense related to this payable of $1 million and $0 during 2008 and 2007, respectively.

(4) Intangible Assets

(a) Goodwill.

As of December 31, 2008 and 2007, REMA had $15 million and $13 million, respectively, of goodwill that is deductible for United States income tax purposes in future periods.

REMA tests goodwill for impairment on an annual basis in April, and more often if events or circumstances indicate there may be impairment. REMA continually assesses whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include a sustained significant decline in Reliant Energy, Inc.'s share price and market capitalization; a decline in expected future cash flows; a significant adverse change in legal factors or in the business climate; unanticipated competition; overall weakness in the industry; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have an impact on the consolidated financial statements.

During April, REMA tested goodwill for impairment and determined that no impairment existed.

During the third and fourth quarters of 2008, given recent adverse changes in the business climate and the credit markets, Reliant Energy, Inc.'s market capitalization being lower than its book value during all of the fourth quarter and extending into 2009, Reliant Energy's review of strategic alternatives to enhance stockholder value and reductions in the expected near-term cash flows from operations, REMA reviewed its goodwill for impairment. REMA concluded that no goodwill impairment occurred as of September 30, 2008. As of December 31, 2008, REMA concluded that its goodwill of $4 million was impaired. This charge is non-cash.

(b) Other Intangibles.

	Remaining Weighted Average Amortization Period (Years)	December 31, 2008 Carrying Amount	2008 Accumulated Amortization	2007 Carrying Amount	2007 Accumulated Amortization
		(in millions)			
SO_2 emission allowances[1][2]	— [1]	$ 69 [3]	$ (5) [3]	$ 252 [3]	$ (187) [3]
NO_x emission allowances[1][4]	— [1]	35 [3]	— [3]	90 [3]	(56) [3]
Total		$ 104	$ (5)	$ 342	$ (243)

(1) SO_2 is sulfur dioxide and NO_x is nitrogen oxides. Amortized to amortization expense on a units-of-production basis. As of December 31, 2008, REMA has recorded (a) SO_2 emission allowances through the 2030 vintage year (most of which relate to 2011 and beyond) and (b) NO_x emission allowances through the 2029 vintage year (most of which relate to 2009 and beyond).
(2) During 2008, 2007 and 2006, we purchased $5 million, $48 million and $29 million, respectively, of SO_2 emission allowances from affiliates.
(3) During 2008, REMA wrote off fully amortized carrying amount and accumulated amortization of SO_2 and NO_x emission allowances of $188 million and $62 million, respectively.
(4) During 2008, 2007 and 2006, we purchased $7 million, $3 million and $2 million, respectively, of NO_x emission allowances from affiliates.

Amortization expense consists of:

	2008	2007	2006
		(in millions)	
Emission allowances	$ 40 [1]	$ 56 [2]	$ 39 [3]
Total	$ 40	$ 56	$ 39

(1) Of this amount, $28 million relates to expense and current liabilities for emission allowances used prior to ownership. These were purchased during the first quarter of 2009.
(2) Of this amount, $0 relates to expense and current liabilities for emission allowances used prior to ownership.
(3) Of this amount, $0 relates to expense and current liabilities for emission allowances used prior to ownership.

Estimated amortization expense based on REMA's intangibles as of December 31, 2008 for the next five years is (in millions):

2009	$ 2 [1]
2010	4 [1]
2011	5 [1]
2012	5 [1]
2013	5 [1]

(1) These amounts do not include estimated amortization expense of emission allowances, which have not been purchased as of December 31, 2008.

(5) Derivatives and Hedging Activities

REMA uses derivative instruments to manage operational or market constraints and to increase return on its generation assets. The instruments used are fixed-price derivative contracts to hedge the variability in future cash flows from forecasted sales of power and purchases of fuel and power. REMA's objective in entering into these fixed-price derivatives is to fix the price for a portion of these transactions. See note 2(e).

During 2008, 2007 and 2006, there was $0, $2 million gain and $0, respectively, of hedge ineffectiveness recognized from derivatives that were designated and qualified as cash flow hedges. In addition, no component of the derivatives' gain or loss was excluded from the assessment of effectiveness for these periods. If it becomes probable that an anticipated transaction will not occur, REMA realizes in net income (loss) the deferred gains and losses recognized in accumulated other comprehensive loss. During 2008, 2007 and 2006, there were no amounts recognized in the results of operations as a result of the discontinuance of cash flow hedges because it was probable that the forecasted transaction would not occur.

As of December 31, 2008 and 2007, REMA does not have any designated cash flow hedges. Amounts included in accumulated other comprehensive loss:

	December 31, 2008	
	At the End of the Period	Expected to be Reclassified into Results of Operations in Next 12 Months
	(in millions)	
De-designated cash flow hedges	$ 48	$ 15

(6) Debt

REMA is obligated to provide credit support for its lease obligations (see note 9(a)) 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 Reliant Energy's credit facilities. As of December 31, 2008 and 2007, the amount of credit support was $35 million and $33 million, respectively.

See note 3 for debt transactions with affiliates.

(7) Benefit Plans

(a) Pension and Postretirement Benefits.

Benefit Plans. REMA sponsors a defined benefit pension plan and provides subsidized postretirement benefits to some bargaining employees but generally does not provide them to non-bargaining employees.

Effective December 31, 2006, REMA adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This statement requires recognition of the funded status of plans, measured as of year end. REMA already uses the required measurement date. The adoption did not have a material effect on any individual line item of REMA's consolidated balance sheet as of December 31, 2006.

The benefit obligations and funded status are:

	Pension		Postretirement Benefits	
	2008	2007	2008	2007
	(in millions)			
Change in Benefit Obligation				
Beginning of year	$ 26	$ 25	$ 32	$ 32
Service cost	2	3	1	1
Interest cost	1	1	2	2
Benefits paid	(1)	(1)	(1)	—
Actuarial (gain) loss	—	(2)	3	(3)
End of year	$ 28	$ 26	$ 37	$ 32
Change in Plan Assets				
Beginning of year	$ 20	$ 17	$ —	$ —
Employer contributions	2	3	—	—
Benefits paid	(1)	—	—	—
Actual investment return	(5)	—	—	—
End of year	$ 16	$ 20	$ —	$ —
Funded status	$ (12)	$ (6)	$ (37)	$ (32)

Amounts recognized in the consolidated balance sheets are:

	Pension December 31,		Postretirement Benefits December 31,	
	2008	2007	2008	2007
	(in millions)			
Current liabilities	$ —	$ —	$ (1)	$ (1)
Noncurrent liabilities	(12)	(6)	(36)	(31)
Net amount recognized	$ (12)	$ (6)	$ (37)	$ (32)

The accumulated benefit obligation for the pension plan was $25 million and $23 million as of December 31, 2008 and 2007, respectively. The pension plan has an accumulated benefit obligation in excess of plan assets.

Net periodic benefit costs are:

	Pension			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
	(in millions)					
Service cost	$ 2	$ 3	$ 3	$ 1	$ 1	$ 1
Interest cost	1	1	1	2	1	2
Expected return on plan assets	(1)	(1)	(1)	—	—	—
Net amortization	—	—	—	1	1	1
Net periodic benefit costs	$ 2	$ 3	$ 3	$ 4	$ 3	$ 4

As of December 31, 2008, $0.4 million and $0.4 million of net actuarial loss and net prior service costs, respectively, in accumulated other comprehensive loss are expected to be recognized in net periodic benefit cost during the next 12 months.

Assumptions. The significant weighted average assumptions used to determine the benefit obligations are:

	Pension		Postretirement Benefits	
	December 31,		December 31,	
	2008	2007	2008	2007
Discount rate	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	3.0%	3.0%	N/A	N/A

The significant weighted average assumptions used to determine the net periodic benefit costs are:

	Pension			Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Discount rate	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	3.0%	3.0%	3.0%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.5%	7.5%	7.5%	N/A	N/A	N/A

As of December 31, 2008 and 2007, REMA developed its expected long-term rate of return on pension plan assets based on third party models. These models consider expected inflation, current dividend yields, expected corporate earnings growth and risk premiums based on the expected volatility of each asset category. REMA weights the expected long-term rates of return for each asset category to determine its overall expected long-term rate of return on pension plan assets. In addition, REMA reviews peer data and historical returns.

REMA's assumed health care cost trend rates used to measure the expected cost of benefits covered by its postretirement plan are:

	2008	2007	2006
Health care cost trend rate assumed for next year[(1)]	7.9%	8.3%	9.0%
Rate to which the cost trend rate is assumed to gradually decline (ultimate trend rate)[(1)]	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate	2015	2015	2015

(1) Represents blended rate for medical and prescription drug costs.

Assumed health care cost trend rates can have a significant effect on the amounts reported for REMA's health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2008:

	One-Percentage Point	
	Increase	Decrease
	(in millions)	
Effect on service and interest cost	$ —	$ —
Effect on accumulated postretirement benefit obligation	5	(4)

Plan Assets. REMA's pension weighted average asset allocations and target allocation by asset category are:

	Percentage of Plan Assets as of December 31,		Target Allocation
	2008	**2007**	**2009**
Domestic equity securities	41%	49%	40%
International equity securities	17	10	20
Global equity securities	9	10	10
Debt securities	33	31	30
Total	100%	100%	100%

In managing the investments associated with the pension plan, REMA's objective is to exceed, on a net-of-fee basis, the rate of return of a performance benchmark composed of the following indices:

Asset Class	**Index**	**Weight**
Domestic equity securities	MSCI U.S. Broad Market Index	40%
International equity securities	MSCI All Country World Ex-U.S. Index	20
Global equity securities	MSCI All Country World Index	10
Debt securities	Lehman Brothers Aggregate Bond Index	30
		100%

As a secondary measure, REMA compares asset performance to the returns of a universe of comparable funds, where applicable, over a full market cycle. Reliant Energy's Benefits Committee reviews plan asset performance each quarter by comparing the actual quarterly returns of each asset class to its related benchmark. REMA's plan assets have generally performed in accordance with the benchmarks.

Cash Obligations. REMA expects pension cash contributions to approximate $7 million during 2009. Expected benefit payments for the next ten years, which reflect future service as appropriate, are:

	Pension	**Postretirement Benefits**
	(in millions)	
2009	$ 1	$ 1
2010	1	2
2011	1	2
2012	1	2
2013	2	3
2014-2018	11	16

(b) Savings Plan.

REMA's employees participate in Reliant Energy's employee savings plans under Sections 401(a) and 401(k) of the Internal Revenue Code. REMA's savings plan benefit expense, including matching and discretionary contributions, was $3 million, $3 million and $2 million during 2008, 2007 and 2006, respectively.

(c) Other Employee Matters.

As of December 31, 2008, approximately 74% of REMA's employees are subject to collective bargaining arrangements. REMA's collective bargaining arrangements expire at various intervals beginning in 2010.

(8) Income Taxes

(a) *Summary.*

REMA's income tax expense (benefit) is:

	2008	2007	2006
		(in millions)	
Current:			
Federal	$ 27	$ —	$ —
State	18	1	4
Total current	45	1	4
Deferred:			
Federal	23	1	7
State	(9)	3	(21)
Total deferred	14	4	(14)
Income tax expense (benefit)	$ 59	$ 5	$ (10)

A reconciliation of the federal statutory income tax rate to the effective income tax rate is:

	2008	2007	2006
Federal statutory rate	35%	35%	(35)%
Additions (reductions) resulting from:			
State income taxes, net of federal income taxes	4	29	(555) (1)
Other, net	2	(1)	(69)
Effective rate	41%	63%	(659)%

(1) Of this percentage, $9 million (592%) relates to Pennsylvania state law changes, which effectively decreased REMA's limitations to use net operating losses in that state.

	December 31,	
	2008	2007
	(in millions)	
Deferred tax assets:		
Current:		
Derivative liabilities, net	$ 29	$ 10
Employee benefits	1	—
Total current deferred tax assets	30	10
Long-term:		
Employee benefits	23	19
Net operating loss carryforwards	15	59
Environmental reserves	6	6
Derivative liabilities, net	39	50
Other	22	18
Total long-term deferred tax assets	105	152
Total deferred tax assets	$ 135	$ 162
Deferred tax liabilities:		
Long-term:		
Depreciation and amortization	$ 101	$ 106
Total long-term deferred tax liabilities	101	106
Total deferred tax liabilities	$ 101	$ 106
Accumulated deferred income taxes, net	$ 34	$ 56

(b) Tax Attribute Carryovers.

	December 31, 2008	Statutory Carryforward Period	Expiration Year(s)
	(in millions)	(in years)	
Net Operating Loss Carryforwards:			
State	$ 240	20	2020 through 2026

(c) Valuation Allowances.

REMA assesses its future ability to use federal and state net operating loss carryforwards and other deferred tax assets using the more-likely-than-not criteria. These assessments include an evaluation of REMA's recent history of earnings and losses, future reversals of temporary differences and identification of other sources of future taxable income, including the identification of tax planning strategies in certain situations.

REMA's valuation allowances for deferred tax assets are:

	Federal	State
	(in millions)	
As of January 1, 2006	$ —	$ 3
Changes in valuation allowances	—	(3)
As of December 31, 2006, 2007 and 2008	$ —	—

(d) FIN 48 and Income Tax Uncertainties.

Effective January 1, 2007, REMA adopted Financial Accounting Standards and Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48). This interpretation addresses whether (and when) tax benefits claimed in Reliant Energy's federal and REMA's state tax returns should be recorded in the financial statements. Pursuant to FIN 48, 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 expense/benefit. Adoption of FIN 48 had no impact on REMA's consolidated financial statements.

REMA's unrecognized tax benefits for federal and state changed as follows:

	2008	2007
	(in millions)	
	$ —	$ —
Increases related to prior years	11	—
Decreases related to prior years	(11)	—
Increases related to current year	—	—
Settlements	—	—
Lapses in the statute of limitations	—	—
End of year	$ —	$ —

As of January 1, 2007 and December 31, 2007 and 2008, REMA had no amounts accrued for interest or penalties. During 2008, 2007 and 2006, REMA recognized $0 of income tax expense (benefit) due to changes in interest and penalties for federal and state income taxes.

REMA has the following years that remain subject to examination or are currently under audit for its major tax jurisdictions:

	Subject to Examination	Currently Under Audit
Federal	1997 to 2008	1997 to 2006
New Jersey	2002 to 2008	2002 to 2005
Pennsylvania	2004 to 2008	2005 to 2006

REMA, through Reliant Energy, expects to continue discussions with taxing authorities regarding tax positions related to the timing of tax deductions for depreciation, emission allowances and certain employee benefits and believes it is reasonably possible some of these matters could be resolved during 2009; however, REMA cannot estimate the range of changes that might occur.

(9) Commitments

(a) Lease Commitments.

REMA entered into sale-leaseback transactions, under operating leases that are non-recourse to Reliant Energy. REMA leases 16.45% and 16.67% interests in the Conemaugh and Keystone facilities, respectively. The leases expire in 2034 and REMA expects to make payments through 2029. REMA also leases a 100% interest in the Shawville facility. This lease expires in 2026 and REMA expects to make payments through that date. At the expiration of these leases, there are several renewal options related to fair market value. REMA LLC's subsidiaries guarantee the lease obligations and REMA LLC has pledged the equity interests in these subsidiaries as collateral. Reliant Energy also provides credit support for these lease obligations in the form of letters of credit. See note 6. During 2008, 2007 and 2006, REMA made lease payments under these leases of $62 million, $65 million and $64 million, respectively. As of December 31, 2008 and 2007, REMA has recorded a prepaid lease of $59 million in current assets and $273 million and $270 million, respectively, in long-term assets. REMA operates the Conemaugh and Keystone facilities under agreements that could terminate annually with one year's notice and received fees of $9 million, $10 million and $9 million during 2008, 2007 and 2006, respectively. These fees, which are recorded in operation and maintenance expense, are primarily to cover REMA's administrative support costs of providing these services.

REMA's ability to make distributions or pay subordinated obligations is restricted by conditions within the lease documents. As of December 31, 2008, REMA was not limited by these restrictions.

Cash Obligations Under Operating Leases. REMA's projected cash obligations under non-cancelable long-term operating leases as of December 31, 2008 are (in millions):

2009	$ 63
2010	52
2011	63
2012	56
2013	64
2014 and thereafter	699
Total	$ 997

Operating Lease Expense. Operating lease expense, including the amortization of deferred lease costs, was $60 million during 2008, 2007 and 2006.

(b) Guarantees and Indemnifications.

Equity Pledged as Collateral for Reliant Energy. REMA LLC's equity is pledged as collateral under certain of Reliant Energy's credit and debt agreements, which have an outstanding balance of $1.2 billion as of December 31, 2008.

Other. 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.

(c) Other Commitments.

Property, Plant and Equipment Commitments. As of December 31, 2008, REMA has contractual commitments to spend approximately $103 million on plant and equipment relating primarily to SO_2 emissions reductions and mercury controls.

Fuel Supply Commitments. REMA is a party to fuel supply contracts of various quantities and durations that are not classified as derivative assets and liabilities. These contracts are not included in the consolidated balance sheet as of December 31, 2008. Minimum purchase commitment obligations under these agreements are as follows as of December 31, 2008 (in millions):

	Fixed Pricing[(1)]
2009	$ 198
2010	51
2011	22
2012	10
2013	—
2014 and thereafter	—
Total	$ 281

(1) As of December 31, 2008, the maximum remaining term under any individual fuel supply contract is four years.

Other Commitments. REMA has other fixed commitments related to various agreements that aggregate as follows (in millions):

2009	$	3
2010		—
2011		—
2012		—
2013		—
2014 and thereafter		—
Total	$	3

(10) Contingencies

REMA is involved in some legal, environmental and other matters before courts and governmental agencies, some of which may involve substantial amounts. Unless otherwise noted, REMA cannot predict the outcome of these matters.

New Source Review Matters. The United States Environmental Protection Agency (EPA) and various states are investigating compliance of coal-fueled electric generating stations with the pre-construction permitting requirements of the Clean Air Act known as "New Source Review." In 2000 and 2001, REMA responded to the EPA's information requests related to five of its stations, and in December 2007, REMA received supplemental requests for two of those stations. 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 Shawville, Portland and Keystone generation facilities violated the agency's regulations regarding New Source Review. While REMA is continuing to review the allegations, REMA believes that the projects listed by the EPA were conducted in compliance with applicable regulations.

In December 2007, the New Jersey Department of Environmental Protection (NJDEP) filed suit against REMA in the United States District Court in Pennsylvania, alleging that New Source Review violations occurred at one of its power plants located in Pennsylvania. The suit seeks installation of "best available" control technologies for each pollutant, to enjoin REMA from operating the plant 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 November 2008, the Connecticut Department of Environmental Protection petitioned to intervene in the NJDEP lawsuit.

REMA is unable to predict the ultimate outcome of the EPA's NOV or the NJDEP's suit, but a final finding that REMA violated the New Source Review requirements could result in significant capital expenditures associated with the implementation of emissions reductions on an accelerated basis and possible penalties. Most of these work projects were undertaken before REMA's ownership of those facilities. REMA believes it is indemnified by or has the right to seek indemnification from the prior owners for certain losses and expenses that REMA may incur from activities occurring prior to its ownership.

Ash Disposal Landfill Closures. REMA is responsible for environmental costs related to the future closures of five ash disposal landfills. REMA recorded the estimated discounted costs ($8 million and $7 million as of December 31, 2008 and 2007, respectively) associated with these environmental liabilities as part of its asset retirement obligations. See note 2(p).

Remediation Obligations. REMA is responsible for environmental costs related to site contamination investigations and remediation requirements at four power plants in New Jersey. REMA recorded the estimated long-term liability for the remediation costs of $8 million as of December 31, 2008 and 2007.

Conemaugh Actions. In April 2007, the Pennsylvania Department of Environmental Protection (PADEP) filed suit in the Court of Common Pleas of Indiana County, Pennsylvania alleging that the Conemaugh plant, of which REMA is the operator and has a 16.45% interest, is in violation of its water discharge permit and related state law. In October 2008, PADEP dismissed its suit against REMA.

In April 2007, PennEnvironment and the Sierra Club filed a citizens' suit against REMA in the United States District Court, Western District of Pennsylvania, to enforce provisions of the Conemaugh water discharge permit. PennEnvironment and the Sierra Club seek civil penalties, remediation and an injunction against further violations. REMA is confident that the Conemaugh plant has operated and will continue to operate in material compliance with its water discharge permit, its consent order agreement with PADEP and related state and federal laws. However, if PennEnvironment and the Sierra Club are successful, REMA could incur additional capital expenditures associated with the implementation of discharge reductions and penalties, which REMA does not believe would be material.

(11) Estimated Fair Value of Financial Instruments

The fair values of cash and cash equivalents, accounts receivable and payable and derivative assets and liabilities approximate their carrying amounts.

(12) Sales of Assets and Emission Allowances

Emission Allowances. REMA sold emission (primarily SO_2) allowances during 2008, 2007 and 2006 for gains of $1 million, $2 million and $71 million, respectively.