

**RRI ENERGY MID-ATLANTIC  
POWER HOLDINGS, LLC**

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Member

RRI Energy Northeast Generation, Inc., Sole Member of RRI Energy Mid-Atlantic Power Holdings, LLC:

We have audited the accompanying consolidated balance sheets of RRI Energy Mid-Atlantic Power Holdings, LLC and subsidiaries (the Company) as of December 31, 2009 and 2008, 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, 2009. 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 RRI Energy Mid-Atlantic Power Holdings, LLC and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2(d) to the consolidated financial statements, the Company changed its method of accounting for fair value measurements of financial instruments due to the adoption of new accounting requirements issued by the FASB, as of January 1, 2008.

KPMG LLP

Houston, Texas  
February 24, 2010

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

	2009	2008	2007
	(thousands of dollars)		
<b>Revenues:</b>			
Revenues.....	\$ 23,612	\$ 39,336	\$ (10,235)
Revenues – affiliates.....	525,403	879,332	696,856
Total.....	549,015	918,668	686,621
<b>Expenses:</b>			
Cost of sales.....	297,852	347,761	244,695
Cost of sales – affiliates.....	3,874	11,535	9,930
Operation and maintenance.....	108,290	112,507	104,600
Operation and maintenance – affiliates.....	66,565	59,431	57,831
Facilities leases.....	59,848	59,848	59,848
General and administrative – affiliates.....	56,272	45,987	44,029
Gains on sales of assets and emission allowances, net ..	(501)	(1,247)	(1,969)
Goodwill impairment.....	—	3,635	—
Depreciation and amortization.....	47,307	74,960	88,449
Total operating expense.....	639,507	714,417	607,413
<b>Operating Income (Loss).....</b>	<b>(90,492)</b>	<b>204,251</b>	<b>79,208</b>
<b>Other Income (Expense):</b>			
Interest expense.....	(752)	(1,239)	(1,230)
Interest expense – affiliates.....	(52,561)	(58,935)	(70,485)
Interest income.....	41	396	837
Total other expense.....	(53,272)	(59,778)	(70,878)
<b>Income (Loss) Before Income Taxes.....</b>	<b>(143,764)</b>	<b>144,473</b>	<b>8,330</b>
Income tax expense (benefit).....	(55,363)	59,459	5,262
<b>Net Income (Loss).....</b>	<b>\$ (88,401)</b>	<b>\$ 85,014</b>	<b>\$ 3,068</b>

See Notes to the Consolidated Financial Statements

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

	December 31,	
	2009	2008
	(thousands of dollars)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents .....	\$ 18,062	\$ 29,713
Restricted cash .....	1,541	1,632
Accounts receivable .....	5,910	5,712
Receivables from affiliates, net .....	49,337	59,770
Inventory .....	94,772	90,241
Prepaid lease .....	59,030	59,030
Derivative assets .....	32,358	34,169
Accumulated deferred income taxes .....	19,258	29,612
Prepayments and other current assets .....	7,309	8,591
Total current assets .....	<u>287,577</u>	<u>318,470</u>
<b>Property, Plant and Equipment, net</b> .....	<u>766,429</u>	<u>723,478</u>
<b>Other Assets:</b>		
Other intangibles, net .....	96,603	98,727
Derivative assets .....	7,816	42,126
Accumulated deferred income taxes .....	33,818	19,145
Prepaid lease .....	277,370	273,374
Other .....	33,886	33,432
Total other assets .....	<u>449,493</u>	<u>466,804</u>
<b>Total Assets</b> .....	<u>\$ 1,503,499</u>	<u>\$ 1,508,752</u>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt .....	\$ 103	\$ 96
Accounts payable, principally trade .....	30,421	38,134
Subordinated accounts payable to affiliates, net .....	309,822	161,126
Subordinated interest payable to affiliate .....	78,227	26,638
Derivative liabilities .....	76,291	103,176
Note payable to affiliate .....	16,191	—
Subordinated working capital facility payable to affiliate .....	25,809	—
Other .....	19,422	50,072
Total current liabilities .....	<u>556,286</u>	<u>379,242</u>
<b>Other Liabilities:</b>		
Derivative liabilities .....	64,493	136,183
Benefit obligations .....	41,966	49,648
Taxes payable to RRI Energy, Inc. and related accrued interest .....	780	27,612
Other .....	22,127	29,511
Total other liabilities .....	<u>129,366</u>	<u>242,954</u>
<b>Subordinated Note Payable to Affiliate</b> .....	<u>543,563</u>	<u>543,563</u>
<b>Long-term Debt</b> .....	<u>444</u>	<u>546</u>
<b>Commitments and Contingencies</b>		
<b>Member's Equity:</b>		
Common stock; no par value (1,000 shares authorized, issued and outstanding) .....	—	—
Additional paid-in capital .....	284,672	284,672
Retained earnings .....	22,018	110,307
Accumulated other comprehensive loss .....	(32,850)	(52,532)
<b>Total member's equity</b> .....	<u>273,840</u>	<u>342,447</u>
<b>Total Liabilities and Member's Equity</b> .....	<u>\$ 1,503,499</u>	<u>\$ 1,508,752</u>

See Notes to the Consolidated Financial Statements

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

	2009	2008	2007
	(thousands of dollars)		
<b>Cash Flows from Operating Activities:</b>			
Net income (loss).....	\$ (88,401)	\$ 85,014	\$ 3,068
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Goodwill impairment.....	—	3,635	—
Depreciation and amortization.....	47,307	74,960	88,449
Deferred income taxes.....	(29,873)	13,670	4,341
Net changes in energy derivatives.....	(37,034)	45,636	35,711
Gains on sales of assets and emission allowances, net.....	(501)	(1,247)	(1,969)
Other, net.....	(92)	(4)	(27)
Changes in other assets and liabilities:			
Accounts receivable.....	(198)	(837)	(280)
Accounts receivable from affiliates, net.....	4,448	13,859	(47,624)
Inventory.....	(4,531)	(8,859)	(693)
Prepaid lease.....	(3,996)	(3,241)	(5,805)
Accounts payable.....	(2,251)	2,253	3,976
Other current assets.....	1,556	(1,382)	246
Other current liabilities.....	(2,857)	3,362	199
Other assets.....	(454)	7,389	337
Subordinated accounts payable to affiliates, net.....	148,734	(32,588)	42,531
Subordinated interest payable to affiliate, net.....	45,448	(3,162)	(33,787)
Income taxes payable/receivable.....	67	459	698
Taxes payable to RRI Energy, Inc. and related accrued interest.....	(26,832)	27,612	—
Other liabilities.....	2,552	2,359	3,029
Net cash provided by operating activities.....	<u>53,092</u>	<u>228,888</u>	<u>92,400</u>
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures.....	(76,367)	(70,218)	(33,172)
Proceeds from sales of emission allowances – affiliate.....	747	74	3,744
Purchases of emission allowances – affiliate.....	(31,312)	(26,473)	(50,799)
Restricted cash.....	91	31	(1,663)
Other, net.....	98	1,132	752
Net cash used in investing activities.....	<u>(106,743)</u>	<u>(95,454)</u>	<u>(81,138)</u>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from note payable to affiliate.....	16,191	—	—
Proceeds from subordinated working capital facility payable to affiliate.....	25,809	—	—
Payments on subordinated note payable to affiliate.....	—	(75,095)	—
Distributions to RRI Energy, Inc. ....	—	(57,162)	—
Net cash provided by (used in) financing activities.....	<u>42,000</u>	<u>(132,257)</u>	<u>—</u>
<b>Net Change in Cash and Cash Equivalents</b> .....	<u>(11,651)</u>	<u>1,177</u>	<u>11,262</u>
<b>Cash and Cash Equivalents at Beginning of Period</b> .....	<u>29,713</u>	<u>28,536</u>	<u>17,274</u>
<b>Cash and Cash Equivalents at End of Period</b> .....	<u>\$ 18,062</u>	<u>\$ 29,713</u>	<u>\$ 28,536</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash Payments:			
Interest paid to affiliate (net of amounts capitalized).....	\$ (6,141)	\$ 81,105	\$ 91,884
Interest paid to third parties.....	220	247	286
Income taxes paid (net of income tax refunds received).....	1,508	18,266	221

See Notes to the Consolidated Financial Statements

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

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>			<u>Total Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Member's Equity</u>	<u>Comprehensive Income (Loss)</u>
	<u>Shares</u>	<u>Amount</u>			<u>Deferred Derivative Gains (Losses)</u>	<u>Benefits Actuarial Net Gain (Loss)</u>	<u>Benefits Net Prior Service Costs</u>			
	(thousands of dollars)									
<b>Balance, December 31, 2006</b>	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 .....										<u>\$ 24,677</u>
<b>Balance, December 31, 2007</b>	1,000	\$ —	\$ 284,672	\$ 82,455	\$ (65,344)	\$ 30	\$ 250	\$ (65,064)	\$ 302,063	
Net income.....				85,014					85,014	\$ 85,014
Distributions to RRI 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 .....										<u>\$ 97,546</u>
<b>Balance, December 31, 2008</b>	1,000	\$ —	\$ 284,672	\$ 110,307	\$ (47,956)	\$ (5,245)	\$ 669	\$ (52,532)	\$ 342,447	

(continued)

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

(continued)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Deferred Derivative Gains (Losses)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>		<u>Total Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Member's Equity</u>	<u>Comprehensive Income (Loss)</u>
	<u>Shares</u>	<u>Amount</u>				<u>Benefits Actuarial Net Gain (Loss)</u>	<u>Benefits Net Prior Service Costs</u>			
<b>Balance, December 31, 2008</b>	1,000	\$ —	\$ 284,672	\$ 110,307	\$ (47,956)	\$ (5,245)	\$ 669	\$ (52,532)	\$ 342,447	
Net loss .....				(88,401)					(88,401)	\$ (88,401)
Non-cash distributions to RRI Energy, Inc. ....				112					112	
Reclassification of net deferred loss from cash flow hedges into net loss, net of tax of \$11 million.....					14,590			14,590	14,590	14,590
Reclassification of net prior service costs into net loss, net of tax of \$0 .....							508	508	508	508
Reclassification of actuarial net loss into net loss, net of tax of \$0 .....						240		240	240	240
Deferred benefits, net of tax of \$4 million and \$0 .....						4,086	258	4,344	4,344	4,344
Comprehensive loss .....										\$ (68,719)
<b>Balance, December 31, 2009</b>	<u>1,000</u>	<u>\$ —</u>	<u>\$ 284,672</u>	<u>\$ 22,018</u>	<u>\$ (33,366)</u>	<u>\$ (919)</u>	<u>\$ 1,435</u>	<u>\$ (32,850)</u>	<u>\$ 273,840</u>	

See Notes to the Consolidated Financial Statements

## RRI ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) Background and Basis of Presentation

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

REMA provides energy, capacity, ancillary and other energy services to wholesale customers in competitive energy markets in the United States through its ownership and operation of and contracting for power generation capacity. The majority of its sales to third parties are through RRI Energy (affiliates). REMA owns or leases interests in 17 electric power plants in Pennsylvania, New Jersey and Maryland with an aggregate net generating capacity of 3,430 megawatts (MW).

*Name Change of Reliant Energy.* Reliant Energy, Inc. changed its name to RRI Energy, Inc. effective May 2, 2009 in connection with the sale of its Texas 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 RRI 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 amounts of assets, liabilities and equity
- the reported amounts of revenues and expenses
- disclosure of contingent assets and liabilities at the date of the financial statements

Actual results could differ from those estimates.

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 has evaluated subsequent events for recording and disclosure to February 25, 2010, the date the financial statements were issued.

REMA’s critical accounting estimates include: (a) fair value of derivative assets and liabilities; (b) recoverability and fair value of long-lived assets; (c) loss contingencies and (d) deferred tax assets, valuation allowances and tax liabilities.

REMA is subject to various risks inherent in doing business. See notes 2(c), 2(d), 2(e), 2(f), 2(g), 2(m), 2(n), 2(o), 2(p), 3, 4, 5, 6, 7, 8, 10, 11, 12 and 13.

##### (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 12(a)), which are under operating leases.



**(c) Revenues.**

*Power Generation Revenues.* REMA records gross revenues from the sales of power and other energy services under the accrual method. Electric power and other energy services are sold at market-based prices through related party affiliates, existing power exchanges or third party contracts. Energy sales and services that have been delivered but not billed by period end are estimated. During 2009, 2008 and 2007, REMA recorded \$364 million, \$793 million and \$626 million, respectively, in power generation revenues.

*Capacity Revenues.* REMA records gross revenues from the sales of capacity under the accrual method. These sales are sold at market-based prices primarily through the RPM auction market in PJM. The majority of sales are through affiliates. Sales that have been delivered but not billed by period end are estimated. During 2009, 2008 and 2007, REMA recorded \$185 million, \$126 million and \$61 million, respectively, in capacity revenues.

During 2009, 2008 and 2007, REMA recognized \$10 million, \$(1) million and \$(46) million in unrealized gains (losses) on energy derivatives included in revenues from third parties. See notes 2(e) and 6.

**(d) Fair Value Measurements.**

*Fair Value Hierarchy and Valuation Techniques.* REMA applies recurring fair value measurements to its financial assets and liabilities. In determining 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. 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 financial 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. REMA's cash equivalents are also valued using Level 1 inputs.

**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.

*Fair Value of Derivative Instruments and Certain Other Assets.* REMA applies fair value measurements to its financial assets and liabilities. Fair value measurements of its financial assets and liabilities are as follows:

	December 31, 2009			Total
	Level 1	Level 2	Level 3	Fair Value
	(in millions)			
Total derivative assets .....	\$ —	\$ 40	\$ —	\$ 40
Total derivative liabilities .....	—	135	6	141
Cash equivalents <sup>(1)</sup> .....	18	—	—	18

(1) Represent investments in money market funds and are included in cash and cash equivalents in REMA's consolidated balance sheet. REMA had \$18 million of cash equivalents included in cash and cash equivalents.

**December 31, 2008**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Reclassifications</u>	<u>Total Fair Value</u>
	(in millions)				
Total derivative assets .....	\$ —	\$ 78	\$ —	\$ (2)	\$ 76
Total derivative liabilities....	—	208	33	(2)	239
Cash equivalents <sup>(2)</sup> .....	30	—	—	—	30

(1) Reclassifications are required to reconcile to the consolidated balance sheet presentation.

(2) Represent investments in money market funds and are included in cash and cash equivalents in REMA's consolidated balance sheet. REMA had \$30 million of cash equivalents included in cash and cash equivalents.

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

	<u>Net Derivatives (Level 3)</u>	
	<u>2009</u>	<u>2008</u>
	(in millions)	
Balance, beginning of period (net asset (liability)).....	\$ (33)	\$ 12
Total gains (losses) realized/unrealized:		
Included in earnings <sup>(1)</sup> .....	(25)	36
Purchases, issuances and settlements (net).....	52	(81)
Transfers in and/or out of Level 3 (net).....	—	—
Balance, end of period (net asset (liability)).....	<u>\$ (6)</u>	<u>\$ (33)</u>

Changes in unrealized gains/losses relating to derivative assets and liabilities still held as of December 31, 2009 and 2008:

Revenues .....	\$ —	\$ —
Cost of sales .....	(6)	1
Total.....	<u>\$ (6)</u>	<u>\$ 1</u>

(1) Recorded in cost of sales.

*Nonperformance Risk on Derivative Liabilities.* 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 RRI Energy, Inc.'s credit default swap spread against the respective derivative liability. As of December 31, 2009 and 2008, REMA had \$0 and \$2 million, respectively, in reserves for nonperformance risk on derivative liabilities. This change in accounting estimate had an impact during 2008 as follows (income (loss)):

	<u>2008</u>	
	<u>Income before Income Taxes</u>	<u>Net Income</u>
	(in millions)	
Total derivative liabilities .....	\$ 2	\$ 1

(1) This amount represented a decrease in REMA's derivative liabilities with the corresponding unrealized gains recorded in cost of sales.

*Fair Value of Other Financial Instruments.* The fair values of cash and accounts receivable and payable approximate their carrying amounts.

See notes 2(e) and 6.

**(e) Derivatives and Hedging Activities.**

Changes in commodity prices prior to the energy delivery period are inherent in REMA's business. Accordingly, REMA may enter selective hedges, including originated transactions, to (a) seek potential value greater than what is available in the spot or day-ahead markets, (b) address operational requirements or (c) seek a specific financial objective. For its risk management activities, REMA uses derivative and non-derivative contracts that provide for settlement in cash or by delivery of a commodity. REMA uses derivative instruments such as forwards and swaps to execute its hedge strategy.

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. 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 an accounting 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 derivative contracts used for risk management purposes and 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:

<u>Instrument</u>	<u>Primary Exposure Risk</u>	<u>Purpose for Holding or Issuing Instrument<sup>(1)</sup></u>	<u>Transactions that Physically Flow/Settle<sup>(2)</sup></u>	<u>Transactions that Financially Settle<sup>(3)</sup></u>
Power forward and swap contracts	Price risk	Power sales to customers Power purchases related to operations	Revenues Cost of sales	Revenues Revenues
Natural gas and fuel forward and swap contracts	Price risk	Natural gas and fuel purchases related to operations	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 of unrealized gains and losses for derivative transactions reclassified to inventory upon settlement.

(3) Includes classification for mark-to-market derivatives and amounts reclassified from accumulated other comprehensive income (loss) related to cash flow hedges.

In addition to price risk, REMA is exposed to credit and operational risk. RRI 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. RRI Energy's risk control framework includes a variety of separate but complementary processes, which involve commercial and senior management and RRI Energy's Board of Directors. See note 2(f) for further discussion of REMA's credit policy.

*Earnings Volatility from Derivative Instruments.* REMA may experience volatility in its earnings resulting from contracts receiving accrual accounting treatment while related derivative instruments are marked to market through earnings. As discussed in note 2(a), REMA's financial statements include estimates and assumptions made by management throughout the reporting periods and as of the balance sheet dates. It is reasonable that subsequent to the balance sheet date of December 31, 2009, changes, some of which could be significant, have occurred in the inputs to the various fair value measures, particularly relating to commodity price movements.

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 during the current reporting period.

*Cash Flow Hedges.* During the first quarter of 2007, REMA de-designated its remaining cash flow hedges; therefore, as of December 31, 2009 and 2008, REMA does not have any designated cash flow hedges. The fair value of REMA's de-designated cash flow hedges are deferred in accumulated other comprehensive loss, net of tax, to the extent the contracts 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 loss into earnings.

*Presentation of Derivative Assets and Liabilities.* REMA presents 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.

**(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 believes this represents the maximum potential loss it could incur if its counterparties failed to perform according to their contract terms.

As of December 31, 2009, REMA has no credit exposure. As of December 31, 2008, one investment grade counterparty (an energy merchant) represented 100% (\$1 million) of REMA's credit exposure and REMA held no collateral from this counterparty.

REMA's credit availability is based on RRI Energy's credit ratings. Based on RRI Energy's current credit rating, any additional collateral postings that would be required from REMA due to a credit downgrade would be immaterial. As of December 31, 2009 and 2008, REMA has posted cash margin deposits of \$0 as collateral for its derivative liabilities receiving mark-to-market accounting treatment and its accounts payable.

**(g) Property, Plant and Equipment and Depreciation Expense.**

REMA computes depreciation using the straight-line method based on estimated useful lives. Depreciation expense was \$36 million, \$35 million and \$33 million during 2009, 2008 and 2007, respectively.

	Estimated Useful Lives (Years)	December 31,	
		2009	2008
(in millions)			
Electric generation facilities .....	20 – 30	\$ 986	\$ 849
Other .....	10 – 26	14	14
Land .....		26	26
Assets under construction .....		33	93
Total .....		1,059	982
Accumulated depreciation .....		(293)	(259)
Property, plant and equipment, net .....		\$ 766	\$ 723

(1) Includes \$234 million (\$212 million net of accumulated depreciation) relating to leasehold improvements for the Keystone, Shawville and Conemaugh plants. The original depreciation periods for these leasehold improvements range primarily from 10 to 31 years.

(2) Includes \$169 million (\$152 million net of accumulated depreciation) relating to leasehold improvements for the Keystone, Shawville and Conemaugh plants.

See note 4 for discussion of REMA's recoverability assessments of long-lived assets (property, plant and equipment and related intangible assets).

***(h) Intangible Assets and Amortization Expense.***

*Goodwill.* REMA performed its goodwill impairment test annually on April 1 and when events or changes in circumstances indicated that the carrying value may not have been recoverable. During 2008, REMA impaired its remaining goodwill. See note 5.

*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, 2009 and 2008. See note 4 for discussion of REMA's recoverability assessments of long-lived assets (property, plant and equipment and related intangible assets).

***(i) Income Taxes.***

*Federal.* REMA is included in the consolidated federal income tax returns of RRI Energy and calculates its income tax provision on a separate return basis, whereby RRI 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 RRI Energy, if any, are recorded to (a) income taxes payable to RRI 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 RRI Energy. See notes 3 and 11.

*State.* REMA is included in the consolidated state income tax returns of RRI 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 RRI Energy based on the tax status of the applicable entities. See note 11.

***(j) Capitalization of Interest Expense.***

REMA capitalizes interest on capital projects greater than \$10 million and under development for one year or more. During 2009, 2008 and 2007, REMA capitalized \$6 million, \$4 million and \$1 million of interest expense, respectively, relating to environmental capital expenditures for SO<sub>2</sub> emission reductions at the Keystone plant.

***(k) Cash and Cash Equivalents.***

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

***(l) Restricted Cash.***

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

**(m) Inventory.**

REMA values fuel inventories at the lower of average cost or market. REMA reduces these inventories as they are used in the production of electricity. During 2009, 2008 and 2007, REMA recorded \$42 million, \$7 million and \$1 million, respectively, for lower of average cost or market valuation 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,	
	2009	2008
	(in millions)	
Materials and supplies, including spare parts .....	\$ 58	\$ 50
Coal .....	25	27
Heating oil .....	12	13
Total inventory .....	<u>\$ 95</u>	<u>\$ 90</u>

**(n) 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 13.

**(o) Asset Retirement Obligations.**

REMA's asset retirement obligations relate to future costs primarily associated with coal ash disposal site closures. Changes in asset retirement obligations, classified in other long-term liabilities, are:

	2009	2008
	(in millions)	
Balance, beginning of period.....	\$ 8	\$ 7
Revisions in estimated cash flows .....	2	—
Accretion expense.....	—	1
Balance, end of period.....	<u>\$ 10</u>	<u>\$ 8</u>

As of December 31, 2009 and 2008, REMA has \$17 million and \$15 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. See note 13.

**(p) Repair and Maintenance Costs for Power Generation Assets.**

REMA expenses repair and maintenance costs as incurred.

**(q) Deferred Lease Costs.**

REMA incurred costs in connection with its sale-leaseback transactions in 2000 (see note 12(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 2009, 2008 and 2007. As of December 31, 2009 and 2008, REMA had \$17 million and \$18 million, respectively, of net deferred lease costs classified in other long-term assets in its consolidated balance sheets.

**(r) New Accounting Pronouncements Adopted.**

*FASB Codification.* The Financial Accounting Standard Board's Accounting Standards Codification became effective for REMA in the third quarter of 2009. The Codification brings together in one place all authoritative

GAAP except for rules, regulations and interpretative releases of the Securities and Exchange Commission which are also authoritative GAAP for REMA. This change did not materially affect REMA's consolidated financial statements.

*Measuring Liabilities at Fair Value.* This guidance provides clarification for measuring liabilities at fair value when there may be a lack of observable market information and requires an entity under those circumstances to employ techniques that use (a) the quoted price of the identical liability when traded as an asset, (b) quoted prices for similar liabilities or similar liabilities when traded as assets or (c) another valuation technique consistent with the fair value measurement principles such as an income approach or a market approach. This change did not impact REMA's consolidated financial statements. See note 2(d).

*Disclosures about Plan Assets.* This guidance requires enhanced disclosures regarding investment policies and strategies for REMA's benefit plan assets as well as information about fair value measurements of plan assets. See note 8.

*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.* This guidance provides direction on how to determine the fair value of certain assets and liabilities when there has been a significant decrease in the volume and level of activity for an asset or liability compared with normal market activity for the asset or liability. This guidance did not have a significant impact on REMA's consolidated financial statements since the markets in which it purchases and sells commodities and derivative instruments are not distressed. See notes 2(d) and 6.

**(s) New Accounting Pronouncements Not Yet Adopted.**

*Improving Financial Reporting Around Variable Interest Entities.* For 2007, 2008 and 2009, REMA does not have any off-balance sheet arrangements to report under requirements effective prior to 2010. In connection with related amended accounting guidance for variable interest entities, which is effective as of January 1, 2010, REMA is assessing its leases for the interests in the Conemaugh, Keystone and Shawville plants (see note 12(a)). If (a) the single power plant legal entities, which own the plants or the interests in the plants are determined to be variable interest entities, (b) the contracts are determined to be or contain variable interests in those entities and (c) REMA has the power to direct the activities of the entities that most significantly impact the entities' economic performance and the obligation to absorb losses of or the right to receive benefits from the entities that could be significant to the entities, REMA would be required to consolidate the entities, which could materially change REMA's future financial statements.

*Improving Disclosures about Fair Value Measurements.* Effective for the 2010 financial statements, this guidance provides for disclosures of significant transfers in and out of Levels 1 and 2. In addition, it clarifies existing disclosure requirements regarding inputs and valuation techniques as well as the appropriate level of disaggregation for fair value measurements disclosures. Effective for the 2011 financial statements, this guidance provides for disclosures of activity on a gross basis within the Level 3 reconciliation. These changes will only affect REMA's disclosures.

**(3) Related Party Transactions**

These financial statements include the impact of significant transactions between REMA and RRI 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 and Technical Services.* RRI Energy provides commercial support, technical services and other corporate services to REMA. RRI 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 RRI 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 are not necessarily indicative of what would have been incurred had REMA been an unaffiliated entity. Payments to RRI 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:

	2009	2008	2007
	(in millions)		
Allocated or charged by RRI Energy.....	\$ 117	\$ 100	\$ 96

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

	2009	2008	2007
	(in millions)		
Sales to RRI Energy under various commodity agreements <sup>(1)</sup> .....	\$ 525	\$ 879	\$ 697
Purchases from RRI Energy under various commodity agreements <sup>(2)</sup> .....	3	10	8
Fees charged by RRI Energy for these services and included in operation and maintenance – affiliates.....	5	5	5
Fees charged by RRI Energy for these services and included in cost of sales – affiliates .....	1	1	2
Sales of emission allowances to RRI Energy <sup>(3)</sup> .....	1	—	4
Gains on emission allowances sales to RRI Energy <sup>(4)</sup> ....	—	—	1

(1) Recorded in revenues – affiliates.

(2) Recorded in cost of sales – affiliates.

(3) Reflects price at which RRI Energy sold the emission allowances to third parties.

(4) Recorded in gains on sales of assets and emission allowances, net.

*Subordinated Accounts Payable to Affiliates, Net.* Due to the transactions discussed above under support and technical services and commodity procurement and marketing, REMA records payables to and receivables from RRI Energy. As of December 31, 2009 and 2008, the net subordinated accounts payable to affiliates was \$310 million and \$161 million, respectively. The outstanding balance is classified as a current liability since REMA may pay the entire amount by December 31, 2010. Payments of this liability are subordinated to certain obligations, including the lease obligations, pursuant to the lease documents.

*Subordinated Long-term Note Payable to Affiliate.* REMA has a note payable to RRI Energy. The note is due January 1, 2029 and accrues interest at a fixed rate of 9.4% per year. As of December 31, 2009 and 2008, REMA had \$544 million outstanding under the note. Payments under this indebtedness are subordinated to certain obligations, including the lease obligations, pursuant to the lease documents. In connection with this note, REMA has accrued subordinated interest payable to affiliate of \$78 million and \$27 million as of December 31, 2009 and 2008, respectively. The outstanding accrued interest is classified as a current liability since REMA may pay the entire amount by December 31, 2010.

*Working Capital Note.* REMA has a revolving note payable to RRI Energy under which REMA may borrow, and RRI Energy 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 5.0% as of December 31, 2009. REMA may replace this note with a working capital facility from an unaffiliated lender if then permitted under RRI Energy's debt agreements. As of December 31, 2009 and 2008, there were no borrowings outstanding under the note.

*Subordinated Working Capital Facility.* REMA has an irrevocably committed subordinated working capital facility with RRI Energy. REMA may borrow under this facility to pay operating expenditures, senior indebtedness and rent, but excluding capital expenditures and subordinated obligations. In addition, RRI Energy must make advances to REMA and REMA must obtain such advances 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. Payments under this indebtedness are subordinated to certain obligations, including the lease obligations, pursuant to the lease documents. The amount available under the subordinated working capital facility was \$96 million on January 2, 2007 and decreases by \$24 million each subsequent year through its expiration in 2011. As of December 31, 2009 and 2008, REMA had \$26 million and \$0, respectively, outstanding under this facility. The outstanding balance is classified as a current liability since REMA may pay the entire amount by December 31, 2010. As of December 31, 2009 and 2008, the amount available under the facility was \$22 million and \$72 million, respectively.

*Letters of Credit.* RRI Energy has posted letters of credit on behalf of REMA related to its lease obligations. See notes 7 and 12(a).

*Notes Payable to Affiliate.* In July 2009, REMA entered into a \$16 million term loan payable to RRI Energy. The note is due July 1, 2029 and accrues interest, which is payable quarterly, at a variable rate based on the cost of funding the loan by RRI Energy. That rate was 1.98% as of December 31, 2009. Borrowings under the note are unsecured and rank equal in priority with REMA's lease obligations. As of December 31, 2009 and 2008, REMA had \$16 million and \$0, respectively, outstanding under the note. The outstanding balance is classified as a current liability since REMA may pay the entire amount by December 31, 2010.

In January 2010, REMA entered into an additional \$20 million term loan payable to RRI Energy. The note is due June 1, 2029 and accrues interest, which is payable quarterly, at a variable rate based on the cost of funding the loan by RRI Energy. That rate was 1.98% as of January 2010. Borrowings under the note are unsecured and rank equal in priority with REMA's lease obligations.

*Cash Distributions to RRI Energy.*

	2009	2008 (in millions)	2007
REMA LLC cash distributions to RRI Energy.....	\$ —	\$ 57	\$ —

*Income Taxes.* See discussion in note 2(i) regarding REMA's policy with regards to income taxes. As of December 31, 2009 and 2008, REMA has \$1 million and \$28 million, respectively, recorded as long-term taxes payable to RRI Energy, Inc., which includes accrued interest payable of \$1 million and \$1 million, respectively. REMA has incurred interest expense related to this payable of \$0, \$1 million and \$0 during 2009, 2008 and 2007, respectively.

**(4) Review of Long-Lived Assets**

REMA periodically evaluates the recoverability of its long-lived assets (property, plant and equipment and intangible assets), which involves significant judgment and estimates, when there are certain indicators (see below) that the carrying value of these assets may not be recoverable. As of December 31, 2009, REMA had \$863 million of long-lived assets. See notes 2(g) and 5.

REMA evaluates its long-lived assets when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Examples of such events or changes in circumstances are:

- a significant decrease in the market price of a long-lived asset
- a significant adverse change in the manner an asset is being used or its physical condition
- an adverse action by a regulator or legislature or an adverse change in the business climate
- an accumulation of costs significantly in excess of the amount originally expected for the construction or acquisition of an asset
- a current-period loss combined with a history of losses or the projections of future losses
- a change in the intent about an asset from an intent to hold to a greater than 50% likelihood that an asset will be sold or disposed of before the end of its previously estimated useful life

When REMA believes an impairment condition may have occurred, REMA is required to estimate the undiscounted future cash flows associated with a long-lived asset or group of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for long-lived assets that are expected to be held and used. Each plant (including its property, plant and equipment and intangible assets) was determined to be its own group.

The determination of impairment is a two-step process, the first of which involves comparing the undiscounted cash flows to the carrying value of the asset. If the carrying value exceeds the undiscounted cash flows, the fair value of the asset must be determined. The fair value of an asset is the price that would be received from a sale of the asset in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, when available. In the absence of quoted prices for identical or similar assets, fair value is estimated using various internal and external valuation methods. These methods include discounted cash flow analyses and reviewing available information on comparable transactions.

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

	<b>December 31, 2009</b>
<u>Undiscounted Cash Flow Scenarios Weightings:</u>	
5-year market forecast with escalation <sup>(1)(2)</sup> .....	50%
5-year market forecast with fundamental view <sup>(1)</sup> .....	50%
<u>Range of Assumptions in Fundamental View:</u>	
Demand for power growth per year .....	1%-2%
After-tax rate of return on new construction <sup>(3)</sup> .....	8.0%-9.5%
Spread between natural gas and coal prices, \$/MMBTU <sup>(4)</sup> .....	\$3-\$5

- (1) For each scenario, the first five years of cash flows are 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 are prior to transportation costs.

REMA estimates 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 uses the following data: (a) forward market curves for commodity prices as of December 18, 2009 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, we model all of our plants and those of others in the regions in which we operate using these assumptions: (a) forward market curves for commodity prices as of December 18, 2009 for the first five years; (b) ranges shown in the table above used in developing the 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 expects will have a lower cost of capital than merchant generators; (f) various ranges of environmental regulations, including those for SO<sub>2</sub>, NO<sub>x</sub> and greenhouse gas emissions; and (g) cash flow projections through the plant's estimated remaining useful life.

*Fair Value.* Generally, fair value will be 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.

Based on REMA's analyses, it determined that no impairments occurred as each plant's undiscounted cash flows exceeded its net book value for the long-lived assets.

*Effect if Different Assumptions Used.* The estimates and assumptions used to determine whether long-lived assets are recoverable or whether impairment exists are subject to high degree of uncertainty. Different assumptions as to power prices, fuel costs, the future cost structure, environmental assumptions and remaining useful lives and ultimate disposition values of the plants would result in estimated future cash flows that could be materially different than those considered in the recoverability assessments as of December 31, 2009 and could result in having to estimate the fair value of the plants.

## **(5) Intangible Assets**

### **(a) Goodwill.**

REMA tested goodwill for impairment on an annual basis in April (through 2008), and more often if events or circumstances indicated there may have been impairment. REMA continually assessed whether any indicators of impairment existed, which required a significant amount of judgment. Such indicators may have included a sustained significant decline in RRI 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 had a significant impact on the recoverability of goodwill and could have had an impact on the consolidated financial statements.

During April 2008, REMA tested goodwill for impairment and determined that no impairment existed.

During the third and fourth quarters of 2008, given adverse changes in the business climate and the credit markets, RRI Energy, Inc.'s market capitalization being lower than its book value during all of the fourth quarter and extending into 2009, RRI 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.

(b) *Other Intangibles.*

	Remaining Weighted Average Amortization Period (Years)	December 31,				
		2009		2008		
		Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization	
(in millions)						
SO <sub>2</sub> emission allowances <sup>(1)(2)</sup> .....	—	(1) \$ 71	(3) \$ (7)	(3) \$ 69	(4) \$ (5)	(4)
NO <sub>x</sub> emission allowances <sup>(1)(5)</sup> .....	—	(1) 35	(3) (2)	(3) 35	(4) —	(4)
Total.....		\$ 106	\$ (9)	\$ 104	\$ (5)	

- (1) SO<sub>2</sub> is sulfur dioxide and NO<sub>x</sub> is nitrogen oxides. Amortized to amortization expense on a units-of-production basis. As of December 31, 2009, REMA has recorded (a) SO<sub>2</sub> emission allowances through the 2039 vintage year and (b) NO<sub>x</sub> emission allowances through the 2030 vintage year.
- (2) During 2009, 2008 and 2007, REMA purchased \$35 million, \$5 million and \$48 million, respectively, of SO<sub>2</sub> emission allowances from affiliates.
- (3) During 2009, REMA wrote off fully amortized carrying amount and accumulated amortization of SO<sub>2</sub> and NO<sub>x</sub> emission allowances surrendered of \$33 million and \$2 million, respectively.
- (4) During 2008, REMA wrote off fully amortized carrying amount and accumulated amortization of SO<sub>2</sub> and NO<sub>x</sub> emission allowances surrendered of \$188 million and \$62 million, respectively.
- (5) During 2009, 2008 and 2007, REMA purchased \$2 million, \$7 million and \$3 million, respectively, of NO<sub>x</sub> emission allowances from affiliates.

	2009	2008	2007
(in millions)			
Amortization of emission allowances.....	\$ 11	\$ 40	(1) \$ 56
Total.....	\$ 11	\$ 40	\$ 56

- (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.

Estimated amortization expense based on REMA's intangibles as of December 31, 2009 for the next five years is (in millions):

2010.....	\$ 4	(1)
2011.....	5	(1)
2012.....	5	(1)
2013.....	5	(1)
2014.....	5	(1)

- (1) These amounts do not include estimated amortization expense of emission allowances not purchased as of December 31, 2009.

**(6) Derivatives and Hedging Activities**

REMA uses derivative instruments to manage operational or market constraints and to increase return on its generation assets. See note 2(e).

As of December 31, 2009 and 2008, REMA does not have any designated cash flow hedges. Amounts included in accumulated other comprehensive loss are:

	<b>December 31, 2009</b>	
	<b>At the End of the Period</b>	<b>Expected to be Reclassified into Results of Operations in Next 12 Months</b>
	(in millions)	
De-designated cash flow hedges, net of tax <sup>(1)(2)</sup> .....	\$ (33)	\$ 14

- (1) No component of the derivatives' gain or loss was excluded from the assessment of effectiveness.  
(2) During 2009, 2008 and 2007, \$0 was recognized in REMA's 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, 2009, REMA's commodity derivative assets and liabilities include amounts for non-trading as follows:

	<b>Derivative Assets</b>		<b>Derivative Liabilities</b>		<b>Net Derivative Assets (Liabilities)</b>
	<b>Current</b>	<b>Long-Term</b>	<b>Current</b>	<b>Long-Term</b>	
	(in millions)				
Non-trading.....	\$ 32	\$ 8	\$ (76)	\$ (65)	\$ (101)
Total derivatives .....	<u>\$ 32</u>	<u>\$ 8</u>	<u>\$ (76)</u>	<u>\$ (65)</u>	<u>\$ (101)</u>

REMA has the following derivative commodity contracts outstanding as of December 31, 2009:

<b>Commodity</b>	<b>Unit<sup>(1)</sup></b>	<b>Notional Volumes</b>	
		<b>Current</b>	<b>Long-term</b>
(in millions)			
Coal .....	MMBTU	23	22 <sup>(2)</sup>

- (1) MMBTU is million British thermal units.  
(2) For 2011, REMA has committed to purchase volumes of 22 million MMBTU (which are included in this table) for which the contract prices are subject to negotiation and agreement prior to the beginning of that year. No coal derivative contracts for the 2011 delivery period have been priced as of December 31, 2009. See note 12(c).

The income (loss) associated with REMA's energy derivatives during 2009 is:

<b>Derivatives not Designated as Hedging Instruments</b>	<b>Revenues</b>	<b>Cost of Sales</b>
	(in millions)	
<b>Non-Trading Commodity Contracts:</b>		
Unrealized <sup>(1)</sup> .....	\$ 10	\$ 27
Realized <sup>(2) (3) (4)</sup> .....	(36)	—
Total non-trading .....	<u>\$ (26)</u>	<u>\$ 27</u>

- (1) As discussed in note 2(e), during 2007, REMA de-designated its remaining cash flow hedges; the amount reflected here subsequent to that time relates to previously measured ineffectiveness reversing due to settlement of the derivative contracts.  
(2) Does not include realized gains or losses associated with cash month transactions, non-derivative transactions or derivative transactions that qualify for the normal purchase/normal sale exception.  
(3) Excludes settlement value of fuel contracts classified as inventory upon settlement.  
(4) 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 2(e).

## (7) Debt

REMA is obligated to provide credit support for its lease obligations (see note 12(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 RRI Energy's credit facilities. As of December 31, 2009 and 2008, the amount of credit support was \$26 million and \$31 million, respectively.

See note 3 for debt transactions with affiliates.

## (8) Pension and Postretirement Benefits

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

REMA's benefit obligation and funded status are:

	Pension		Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
<b>Change in Benefit Obligation</b>				
Beginning of year .....	\$ 28	\$ 26	\$ 37	\$ 32
Service cost.....	2	2	1	1
Interest cost.....	1	1	2	2
Benefits paid.....	(1)	(1)	(1)	(1)
Actuarial (gain) loss.....	1	—	(7)	3
End of year.....	\$ 31	\$ 28	\$ 32	\$ 37
<b>Change in Plan Assets</b>				
Beginning of year .....	\$ 16	\$ 20	\$ —	\$ —
Employer contributions .....	5	2	1	—
Benefits paid.....	(1)	(1)	(1)	—
Actual investment return .....	2	(5)	—	—
End of year.....	\$ 22	\$ 16	\$ —	\$ —
<b>Funded status</b> .....	\$ (9)	\$ (12)	\$ (32)	\$ (37)

Amounts recognized in the consolidated balance sheets are:

	Pension		Postretirement Benefits	
	December 31,		December 31,	
	2009	2008	2009	2008
	(in millions)			
Current liabilities.....	\$ —	\$ —	\$ (2)	\$ (1)
Noncurrent liabilities.....	(9)	(12)	(30)	(36)
Net amount recognized.....	\$ (9)	\$ (12)	\$ (32)	\$ (37)

The accumulated benefit obligation for the pension plan was \$28 million and \$25 million as of December 31, 2009 and 2008, respectively. The pension plan has an accumulated benefit obligation in excess of plan assets.

Net periodic benefit costs are:

	Pension			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
	(in millions)					
Service cost .....	\$ 2	\$ 2	\$ 3	\$ 1	\$ 1	\$ 1
Interest cost .....	1	1	1	2	2	1
Expected return on plan assets.....	(1)	(1)	(1)	—	—	—
Net amortization .....	1	—	—	1	1	1
Net periodic benefit costs .....	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 3</u>

As of December 31, 2009, \$0.2 million and \$0.5 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,	
	2009	2008	2009	2008
Discount rate.....	5.50%	5.75%	5.50%	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		
	2009	2008	2007	2009	2008	2007
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

The expected long-term rate of return on assets is determined based on third party capital market asset models. Generally, a time horizon of greater than five years is assumed and, therefore, interim volatility in returns is regarded with the appropriate perspective. Models assume that future returns are based on long-term, historical performance as adjusted for any differences in expected inflation, current dividend yields, expected corporate earnings growth and risk premiums based on the expected volatility of each asset category. The adjusted historical returns are weighted by the long-term pension plan asset allocation targets. REMA's investment manager and actuarial consultant assist with the analysis.

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

	2009	2008	2007
Health care cost trend rate assumed for next year <sup>(1)</sup> .....	8.0%	7.9%	8.3%
Rate to which the cost trend rate is assumed to gradually decline (ultimate trend rate) <sup>(1)</sup> .....	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, 2009:

	<b>One-Percentage Point</b>	
	<b>Increase</b>	<b>Decrease</b>
(in millions)		
Effect on service and interest cost .....	\$ —	\$ —
Effect on accumulated postretirement benefit obligation .....	4	(3)

*Plan Assets.* RRI Energy's Benefits Committee establishes the overall investment policy for the plan assets and appoints an investment manager to implement it. Plan assets are managed solely in the interest of the plan's participants and their beneficiaries and are invested with the objective of earning the necessary returns to meet the time horizons of the accumulated and projected retirement benefit obligations. Asset diversification across asset types, fund strategies, and fund managers is intended to manage risk to a reasonable and prudent level. The investment manager may use derivative securities for diversification, risk-control and return enhancement purposes but may not use them for the purpose of leverage.

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

	<b>Percentage of Plan Assets as of December 31,</b>		<b>Target Allocation<sup>(1)</sup></b>
	<b>2009</b>	<b>2008</b>	<b>2010</b>
Domestic equity securities.....	35%	41%	35%
International equity securities.....	25	17	25
Global equity securities .....	10	9	10
Debt securities .....	30	33	30
Total.....	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) RRI Energy's Benefits Committee has determined an allowable range for each category; these percentages represent the mid-point for each respective range.

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

<b>Asset Class</b>	<b>Index</b>	<b>Weight</b>
Domestic equity securities.....	Dow Jones U.S. Total Stock 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 .....	Barclays Capital Aggregate Bond Index	30
		<u>100%</u>

RRI Energy's Benefits Committee reviews plan asset performance each quarter by comparing the actual quarterly returns of each asset class to its related benchmark.

*Fair Value Measurements.* The fair value hierarchy establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value into three categories: quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). See note 2(d) for further discussion about the three levels.

The plan assets are invested in open-end mutual funds. The shares of the mutual funds held by the plans are valued at quoted market prices in an active market (which are based on the redeemable net asset value of the fund) and are classified as Level 1. The asset allocations below are based on the nature of the underlying mutual fund assets.



As of December 31, 2009, the allocated pension plan's investments measured at fair value are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(in millions)		
Domestic equity securities <sup>(1)</sup> .....	\$ 8	\$ —	\$ —
International equity securities <sup>(2)</sup> .....	6	—	—
Global equity securities <sup>(3)</sup> .....	2	—	—
Debt securities <sup>(4)</sup> .....	6	—	—
Total .....	<u>\$ 22</u>	<u>\$ —</u>	<u>\$ —</u>

- (1) Comprised of large cap stocks.  
(2) Comprised of large cap foreign stocks.  
(3) Comprised of both foreign and domestic multi-cap stocks.  
(4) Comprised of intermediate-term, investment grade bonds.

*Cash Obligations.* REMA expects pension cash contributions to approximate \$1 million during 2010. Expected benefit payments for the next ten years, which reflect future service as appropriate, are:

	<u>Pension</u>	<u>Postretirement Benefits</u>
	(in millions)	
2010 .....	\$ 1	\$ 1
2011 .....	1	2
2012 .....	1	2
2013 .....	1	2
2014 .....	2	2
2015-2019 .....	13	14

#### (9) Savings Plan

REMA's employees participate in RRI 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 during 2009, 2008 and 2007.

#### (10) Collective Bargaining Agreements

As of December 31, 2009, approximately 75% of REMA's employees are subject to collective bargaining agreements. Approximately 55% of REMA's employees are subject to collective bargaining agreements that will expire in 2010. REMA intends to negotiate the renewal of these agreements.

**(11) Income Taxes**

**(a) Summary.**

REMA's income tax expense (benefit) is:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(in millions)	
<b>Current:</b>			
Federal.....	\$ (27)	\$ 27	\$ —
State.....	2	18	1
Total current .....	<u>(25)</u>	<u>45</u>	<u>1</u>
<b>Deferred:</b>			
Federal.....	(23)	23	1
State.....	(7)	(9)	3
Total deferred .....	<u>(30)</u>	<u>14</u>	<u>4</u>
Income tax expense (benefit).....	<u>\$ (55)</u>	<u>\$ 59</u>	<u>\$ 5</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Federal statutory rate .....	(35)%	35%	35%
Additions (reductions) resulting from:			
State income taxes, net of federal income taxes .....	(4)	4	29
Other, net .....	—	2	(1)
Effective rate .....	<u>(39)%</u>	<u>41%</u>	<u>63%</u>

	December 31,	
	2009	2008
(in millions)		
<b>Deferred tax assets:</b>		
Current:		
Derivative liabilities, net.....	\$ 18	\$ 29
Employee benefits .....	1	1
Total current deferred tax assets .....	19	30
Long-term:		
Employee benefits .....	19	23
Net operating loss carryforwards.....	62	15
Environmental reserves .....	7	6
Derivative liabilities, net.....	23	39
Other .....	27	22
Total long-term deferred tax assets.....	138	105
Total deferred tax assets.....	\$ 157	\$ 135
<b>Deferred tax liabilities:</b>		
Long-term:		
Depreciation and amortization.....	\$ 108	\$ 101
Total long-term deferred tax liabilities .....	108	101
Total deferred tax liabilities .....	\$ 108	\$ 101
Accumulated deferred income taxes, net .....	\$ 49	\$ 34

**(b) Tax Attribute Carryovers.**

	December 31, 2009	Statutory Carryforward Period	Expiration Year(s)
	(in millions)	(in years)	
Net operating loss carryforwards:			
Federal .....	\$ 99	20	2029
State .....	414	7 to 20	2016 through 2029

**(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 has no valuation allowances as of December 31, 2009 or 2008.

**(d) Income Tax Uncertainties.**

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 an interpretation of accounting for income tax uncertainties in 2007 had no impact on REMA's consolidated financial statements.

During 2009 and 2007, REMA's unrecognized federal and state tax benefits changed insignificantly. REMA's unrecognized federal and state tax benefits changed as follows during 2008 (in millions):

	<b>2008</b>
Balance, beginning of period .....	\$ —
Increases related to prior years .....	8
Decreases related to prior years .....	(8)
Increases related to current year .....	—
Settlements .....	—
Lapses in the statute of limitations .....	—
Balance, end of period .....	<u>\$ —</u>

As of December 31, 2008 and 2009, REMA had no amounts accrued for interest or penalties. During 2009, 2008 and 2007, 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:

	<b>Subject to Examination</b>	<b>Currently Under Audit</b>
Federal .....	2002 to 2009	2002 to 2008
New Jersey .....	2002 to 2009	2002 to 2005
Pennsylvania .....	2005 to 2009	2005 to 2006

REMA, through RRI Energy, expects to continue discussions with taxing authorities regarding tax positions related to the timing of tax deductions for depreciation and emission allowances and believes it is reasonably possible some of these matters could be resolved during 2010; however, REMA cannot estimate the range of changes that might occur.

## **(12) Commitments**

### **(a) Lease Commitments.**

REMA entered into sale-leaseback transactions, under operating leases that are non-recourse to RRI 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. RRI Energy also provides credit support for these lease obligations in the form of letters of credit. See note 7. During 2009, 2008 and 2007, REMA made lease payments under these leases of \$63 million, \$62 million and \$65 million, respectively. As of December 31, 2009 and 2008, REMA has recorded a prepaid lease of \$59 million in current assets and \$277 million and \$273 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, \$9 million and \$10 million during 2009, 2008 and 2007, 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 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 some transactions with affiliates or (f) materially change its business. As of December 31, 2009, REMA was limited by the covenant restricting dividends and the payment of subordinated obligations.

*Cash Obligations Under Operating Leases.* REMA's projected cash obligations under non-cancelable long-term operating leases as of December 31, 2009 are (in millions):

2010.....	\$	52
2011.....		63
2012.....		56
2013.....		64
2014.....		64
2015 and thereafter.....		635
Total.....	\$	<u>934</u>

*Operating Lease Expense.* Operating lease expense, including the amortization of deferred lease costs, was \$60 million during 2009, 2008 and 2007.

**(b) Guarantees and Indemnifications.**

*Equity Pledged as Collateral for RRI Energy.* REMA LLC's equity is pledged as collateral under certain of RRI Energy's credit and debt agreements, which have an outstanding balance of \$650 million as of December 31, 2009 and mature in 2012, 2014 and 2036.

*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, 2009, REMA has contractual commitments to spend approximately \$15 million on plant and equipment relating primarily to maintenance requirements.

*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, 2009. Minimum purchase commitment obligations under these agreements are as follows as of December 31, 2009:

		<b>Fixed Pricing<sup>(1)</sup></b>
		<b>(in millions)</b>
2010.....	\$	174
2011 <sup>(2)</sup> .....		62
2012.....		12
2013.....		—
2014.....		—
2015 and thereafter.....		—
Total.....	\$	<u>248</u>

(1) As of December 31, 2009, the maximum remaining term under any individual fuel supply contract is three years.

(2) REMA has committed to purchase volumes of 22 million MMBTU under some coal contracts for which the contract prices are subject to negotiation and agreement prior to the beginning of that year and thus the amounts are not included in this table.

*Other Commitments.* As of December 31, 2009, REMA has other fixed commitments related to various agreements that aggregate as follows (in millions):

2010.....	\$ 28
2011.....	—
2012.....	—
2013.....	—
2014.....	—
2015 and thereafter.....	—
Total.....	<u>\$ 28</u>

**(13) Contingencies**

REMA is involved in some legal, environmental and governmental proceedings, some of which may involve substantial amounts. Unless otherwise noted, REMA cannot predict the outcome of the matters described below.

*New Source Review Matters.* The United States Environmental Protection Agency (EPA) and various states are investigating compliance of coal-fueled electric generating plants 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 plants, and in December 2007, REMA received supplemental requests for two of those plants. 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.

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 March 2009, the Connecticut Department of Environmental Protection became an intervening party to the suit.

REMA believes that the projects listed by the EPA and the projects subject to the NJDEP’s suit were conducted in compliance with applicable regulations. However, any 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 \$6 million as of December 31, 2009 and 2008, respectively) associated with these environmental liabilities as part of its asset retirement obligations. See note 2(o).

*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, 2009 and 2008.

*Conemaugh Actions.* 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 water discharge permit for the Conemaugh plant, of which REMA is the operator and has a 16.45% interest. 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 the Pennsylvania Department of Environmental Protection, and related state and federal laws. In December 2009, the District Court ordered that the case be dismissed. PennEnvironment and the Sierra Club have requested that the court reconsider its ruling. If PennEnvironment and the Sierra Club are ultimately successful, REMA could incur additional capital expenditures associated with the implementation of discharge reductions and penalties, which REMA does not believe would be material.