NRG YIELD, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion analyzes the Company's historical financial condition and results of operations. For all periods prior to the initial public offering, the discussion reflects the Company's accounting predecessor, or NRG Yield, the financial statements of which were prepared on a "carve-out" basis from NRG and are intended to represent the financial results of the contracted renewable energy and conventional generation and thermal infrastructure assets in the United States that were acquired by the Company on July 22, 2013. For all periods subsequent to the initial public offering, the discussion reflects the Company's consolidated financial results. In addition, as discussed in Note 1, *Nature of Business* to this Form 10-Q, the purchase of the Acquired ROFO Assets on June 30, 2014 was accounted for in accordance with ASC 850-50, *Business Combinations - Related Issues*, with the assets and liabilities transferred to the Company recorded at historical cost as they relate to interests under common control by NRG. The difference between the cash proceeds and historical value of the net assets was recorded as a distribution to NRG and reduced the Company's contributed capital balance. The guidance requires retrospective combination of the entities for all periods presented as if the combination has been in effect since the inception of common control.

As you read this discussion and analysis, refer to the Company's Consolidated Statements of Operations which present the results of operations for the six months ended June 30, 2014 and 2013.

The discussion and analysis below has been organized as follows:

- Executive Summary, including a description of the business and significant events that are important to understanding the results of operations and financial condition;
- Results of operations, including an explanation of significant differences between the periods in the specific line items of the consolidated statements of operations;
- Financial condition addressing liquidity position, sources and uses of cash, capital resources and requirements, commitments, and off-balance sheet arrangements; and
- Known trends that may affect the Company's results of operations and financial condition in the future.

Executive Summary

Introduction and Overview

The Company is a dividend growth-oriented company formed to serve as the primary vehicle through which NRG owns, operates and acquires contracted renewable and conventional generation and thermal infrastructure assets. The Company believes it is well positioned to be a premier company for investors seeking stable and growing dividend income from a diversified portfolio of lower-risk high-quality assets.

The Company owns a diversified portfolio of contracted renewable and conventional generation and thermal infrastructure assets in the United States. The Company's contracted generation portfolio consists of four natural gas or dual-fired facilities, ten utility-scale solar and wind generation facilities and two portfolios of distributed solar facilities that collectively represent 1,914 net MW, and includes the Acquired ROFO Assets (which consist of El Segundo, RE Kansas South and TA High Desert projects) that were acquired from NRG on June 30, 2014 as described in Note 1, *Nature of Business*, and Note 3, *Business Acquisitions*. Each of these assets sells substantially all of its output pursuant to long-term, fixed price offtake agreements with creditworthy counterparties. The average remaining contract duration of these offtake agreements was approximately 17 years as of June 30, 2014 based on cash available for distribution. The Company also owns thermal infrastructure assets with an aggregate steam and chilled water capacity of 1,346 net MWt and electric generation capacity of 123 net MW. These thermal infrastructure assets provide steam, hot water and/or chilled water, and in some instances electricity, to commercial businesses, universities, hospitals and governmental units in multiple locations, principally through long-term contracts or pursuant to rates regulated by state utility commissions.

Regulatory Matters

As operators of power plants and participants in wholesale energy markets, certain of the Company's entities are subject to regulation by various federal and state government agencies. These include the CFTC, FERC, and the PUCT, as well as other public utility commissions in certain states where the Company's generating, thermal, or distributed solar assets are located. In addition, the Company is subject to the market rules, procedures and protocols of the various ISO markets in which it participates. The Company must also comply with the mandatory reliability requirements imposed by the North American Electric Reliability Corporation and the regional reliability entities in the regions where the Company operates.

The Company's operations within the ERCOT footprint are not subject to rate regulation by FERC, as they are deemed to operate solely within the ERCOT market and not in interstate commerce. These operations are subject to regulation by PUCT.

CFTC

The CFTC, among other things, has regulatory oversight authority over the trading of swaps, futures and many commodities under the Commodity Exchange Act, or CEA. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, among other things, aims to improve transparency and accountability in derivatives markets. The Dodd-Frank Act increases the CFTC's regulatory authority on matters related to over-the-counter derivatives, market clearing, position reporting, and capital requirements.

The Company expects that in 2014, the CFTC will clarify the scope of the Dodd-Frank Act and issue final rules concerning position limits, margin requirements, and other issues that will affect the Company's over-the-counter derivatives and futures trading. Because there are many details that remain to be addressed in CFTC rulemaking proceedings, at this time the expected impact to the Company on its current operations cannot be measured.

FERC

FERC, among other things, regulates the transmission and the wholesale sale of electricity in interstate commerce under the authority of the FPA. The transmission of electric energy occurring wholly within ERCOT is not subject to the FERC's jurisdiction under Sections 203 or 205 of the FPA. Under existing regulations, FERC determines whether an entity owning a generation facility is an EWG, as defined in the PUHCA. FERC also determines whether a generation facility meets the ownership and technical criteria of a Qualifying Facility, or QF, under the PURPA. Each of the Company's non-ERCOT U.S. generating facilities qualifies as an EWG.

The FPA gives FERC exclusive rate-making jurisdiction over the wholesale sale of electricity and transmission of electricity in interstate commerce of public utilities (as defined by the FPA). Under the FPA, FERC, with certain exceptions, regulates the owners of facilities used for the wholesale sale of electricity or transmission in interstate commerce as public utilities, and establishes market rules that are just and reasonable.

Public utilities are required to obtain FERC's acceptance, pursuant to Section 205 of the FPA, of their rate schedules for the wholesale sale of electricity. All of the Company's non-QF generating entities located outside of ERCOT make sales of electricity pursuant to market-based rates, as opposed to traditional cost-of-service regulated rates. Every three years FERC conducts a review of the Company's market based rates and potential market power on a regional basis.

In accordance with the Energy Policy Act of 2005, FERC has approved the NERC as the national Energy Reliability Organization, or ERO. As the ERO, NERC is responsible for the development and enforcement of mandatory reliability standards for the wholesale electric power system. In addition to complying with NERC requirements, each project entity must comply with the requirements of the regional reliability entity for the region in which it is located.

PURPA was passed in 1978 in large part to promote increased energy efficiency and development of independent power producers. PURPA created QFs to further both goals, and FERC is primarily charged with administering PURPA as it applies to QFs. Certain QFs are exempt from regulation, either in whole or in part, under the FPA as public utilities.

PUHCA provides FERC with certain authority over and access to books and records of public utility holding companies not otherwise exempt by virtue of their ownership of EWGs, QFs, and Foreign Utility Companies. The Company is exempt from many of the accounting, record retention, and reporting requirements of the PUHCA.

National

New Jersey and Maryland's Generator Contracting Programs — The New Jersey Board of Public Utilities and the Maryland Public Service Commission awarded long-term power purchase contracts to generation developers to encourage the construction of new generation capacity in the respective States. The constitutionality of the long-term contracts was challenged and the U.S. District Court for the District of New Jersey (in an October 25, 2013 decision) and the U.S. District Court for the District of Maryland (in an October 24, 2013 decision) found that the respective contracts violated the Supremacy Clause of the U.S. Constitution and were preempted. On June 30, 2014, the U.S. Court of Appeals for the Fourth Circuit affirmed the Maryland District Court's decision. The appeal of the New Jersey decision is still pending before the U.S. Court of Appeals for the Third Circuit. These decisions may affect future contracting opportunities.

Thermal

On January 17, 2014, ISO-NE filed with FERC to fundamentally revamp its forward capacity market, or FCM, by making a resource's forward capacity market compensation dependent on resource output during short intervals of operating reserve scarcity. The ISO-NE proposal would replace the existing shortage event penalty structure with a new performance incentive, or PI, mechanism, resulting in capacity payments to resources that would be the combination of two components: (1) a base capacity payment and (2) a performance payment or charge. The performance payment or charge would be entirely dependent upon the resource's delivery of energy or operating reserves during scarcity conditions, and could be larger than the base payment.

NEPOOL, the ISO-NE stakeholder group, filed an alternative proposal to ISO-NE's PI proposal with FERC, under which the market rules would be revised to maintain the FCM capacity product as a tool to ensure resource adequacy, and would place real-time performance incentive-related improvements directly into the energy and reserve markets. The Company supported the NEPOOL alternative.

On May 30, 2014, FERC rejected both proposals, instituted a proceeding for further hearings and required ISO-NE to make a compliance filing to modify its proposal and adopt the increases to the reserve constraint penalty factors in NEPOOL's proposal. The matter is still subject to rehearing with FERC.

Significant Events During the Six Months Ended June 30, 2014

Acquisition of Acquired ROFO Assets from NRG

On June 30, 2014, Yield Operating acquired the following projects from NRG: (i) El Segundo, a 550 MW fast-start, gas-fired facility located in Los Angeles County, California; (ii) TA High Desert, a 20 MW solar facility located in Los Angeles County, California; and (iii) RE Kansas South, a 20 MW solar facility located in Kings County, California.

These transactions represent the first acquisition of ROFO assets from NRG by the Company at an aggregate purchase price of $357 million, which represents a base purchase price of $349 million and $8 million of working capital adjustments. In addition, the acquisition included the assumption of $612 million in project level debt.

Alta Acquisition

On August 12, 2014, Yield Operating acquired 100% of the membership interests of Alta Wind Asset Management Holdings, LLC, Alta Wind Company, LLC, Alta Wind X Holding Company, LLC and Alta Wind XI Holding Company, LLC, which collectively own 7 wind facilities that total 947 MW located in Tehachapi, California and a portfolio of associated land leases, or the Alta Wind Assets. The purchase price for the Alta Wind Assets was $921 million, which included a base purchase price of $870 million, as well as a payment for working capital of $51 million, plus the assumption of $1.6 billion of non-recourse project-level debt. Terra-Gen, an affiliate of the Alta Sellers, will continue to provide day-to-day operations and maintenance services under a 10-year O&M agreement, which will automatically extend for additional five-year periods unless either party provides notice of termination at least 90 days prior to the expiration of the then-current term. Pursuant to the terms of such agreement, Terra-Gen will be paid a fixed monthly payment (adjusted annually for inflation) and reimbursed for certain costs incurred.

Significant Events During the Six Months Ended June 30, 2013

During the first six months of 2013, Alpine, Borrego and Marsh Landing achieved commercial operations. In addition, Borrego completed financing arrangements with a group of lenders.

Basis of Presentation

For all periods prior to the Yield Inc. initial public offering, the accompanying unaudited combined financial statements represent the combination of the assets that the Company acquired and were prepared using NRG's historical basis in the assets and liabilities. For the purposes of the unaudited combined financial statements, the term "NRG Yield" represents the accounting predecessor, or the combination of the acquired businesses. For all periods subsequent to the Yield Inc. initial public offering, the accompanying unaudited consolidated financial statements represent the consolidated results of the Company.

The acquisition of the TA High Desert, RE Kansas South, and El Segundo projects from NRG on June 30, 2014 was accounted for as a transfer of entities under common control. The guidance requires retrospective combination of the entities for all periods presented as if the combination has been in effect since the inception of common control. Accordingly, the Company prepared its consolidated financial statements to reflect the transfer as if it had taken place on January 1, 2013, or from the date the entities were under common control, which was May 13, 2013 for RE Kansas South and March 28, 2013 for TA High Desert.

Consolidated Results of Operations

The following table provides selected financial information:

(In millions except otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Change %	Six months ended June 30, 2014	Six months ended June 30, 2013	Change %
Operating Revenues						
Total operating revenues	$ 134	$ 82	64	$ 274	$ 135	103
Operating Costs and Expenses						
Cost of operations	45	32	41	105	61	72
Depreciation and amortization	36	10	260	60	20	200
General and administrative — affiliate	2	2	—	4	4	—
Total operating costs and expenses	83	44	89	169	85	99
Operating Income	51	38	34	105	50	110
Other Income/(Expense)						
Equity in earnings of unconsolidated affiliates	14	2	N/M	15	6	150
Other income, net	—	1	100	1	1	—
Interest expense	(28)	(6)	N/M	(54)	(11)	N/M
Total other expense, net	(14)	(3)	367	(38)	(4)	N/M
Net Income	$ 37	$ 35	6	$ 67	$ 46	46

N/M - Not meaningful.

Business metrics:	Three months ended June 30, 2014 [(a)]	Three months ended June 30, 2013 [(a)]	Six months ended June 30, 2014 [(a)]	Six months ended June 30, 2013 [(a)]
Conventional MWh sold (in thousands)	346	—	674	—
Renewable MWh sold (in thousands)	279	256	490	439
Thermal MWt sold (in thousands)	441	364	1,109	862

(a) Volumes sold do not include MWh 52 thousand, 37 thousand, 124 thousand and 45 thousand for thermal generation for the three months and six months ended June 30, 2014 and 2013, respectively.

Management's Discussion of the Results of Operations for the Three months ended June 30, 2014 and 2013

Operating Revenues

Operating revenues increased by $52 million during the three months ended June 30, 2014, compared to the same period in 2013 due to:

	Conventional	Renewables	Thermal	Total
		(In millions)		
Three Months Ended June 30, 2014	$ 61	$ 30	$ 43	$ 134
Three Months Ended June 30, 2013	20	26	36	82

The increase in operating revenues is due primarily to:

Increase in Conventional revenues as Marsh Landing and El Segundo reached commercial operations in 2013	$ 41
Increase in Thermal revenue is primarily due to revenue generated from Energy Systems acquired in the fourth quarter of 2013	7
Increase in Renewables revenue primarily due to RE Kansas South and TA High Desert facilities reaching commercial operations in the first half of 2013	4
	$ 52

Operating Costs

Operating costs increased by $13 million during the three months ended June 30, 2014, compared to the same period in 2013 due to:

	Conventional	Renewables	Thermal	Total
		(In millions)		
Three Months Ended June 30, 2014	$ 12	$ 3	$ 30	$ 45
Three Months Ended June 30, 2013	3	2	27	32

The increase in operating costs is due primarily to:

Increase in costs associated with maintenance and operations at Marsh Landing and El Segundo which reached commercial operations in 2013	$ 9
Higher cost of production due to repowering of Dover facilities in the second quarter of 2013; as well as increased costs in connection with the Energy Systems acquisition	3
Increase in costs associated with maintenance and operations at RE Kansas South and TA High Desert which reached commercial operations in 2013	1
	$ 13

Depreciation and Amortization

Depreciation and amortization increased by $26 million during the three months ended June 30, 2014, compared to the same period in 2013, due primarily to additional depreciation expense associated with the El Segundo and Marsh Landing facilities which reached commercial operations in 2013, as well as RE Kansas South and TA High Desert reaching commercial operations in the first half of 2013.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates increased by $12 million during the three months ended June 30, 2014, compared to the same period in 2013 due primarily to an increase in earnings for CVSR and GenConn.

Interest Expense

Interest expense increased by $22 million during the three months ended June 30, 2014, compared to the same period in 2013, due primarily to an increase in derivative interest expense of $9 million related to the Alpine interest rate swap, interest expense of $4 million on the Company's revolving credit facility and affiliate debt issued in February 2014, as well as $6 million of interest expense for the Marsh Landing and El Segundo projects which reached commercial operations in 2013.

Management's Discussion of the Results of Operations for the Six Months ended June 30, 2014 and June 30, 2013

Operating Revenues

Operating revenues increased by $139 million during the six months ended June 30, 2014, compared to the same period in 2013 due to:

	Conventional	Renewables	Thermal	Total
	(In millions)			
Six Months Ended June 30, 2014	$ 117	$ 49	$ 108	$ 274
Six Months Ended June 30, 2013	20	42	73	135

The increase in operating revenues is due primarily to:

Increase in Conventional revenues as Marsh Landing and El Segundo reached commercial operations in 2013	$ 97
Increase in Thermal segment due to revenue generated from Energy Systems acquired in the fourth quarter of 2013, repowering of Dover facilities in the second quarter of 2013, as well as increased generation at other Thermal facilities due to weather conditions in the first quarter of 2014	35
Increase in Renewables revenue due to Alpine, Borrego, TA High Desert and RE Kansas South facilities reaching commercial operations in the first half of 2013	7
	$ 139

Operating Costs

Operating costs increased by $44 million during the six months ended June 30, 2014, compared to the same period in 2013 due to:

	Conventional	Renewables	Thermal	Total
	(In millions)			
Six Months Ended March 31, 2014	$ 22	$ 7	$ 76	$ 105
Six Months Ended March 31, 2013	3	5	53	61

The increase in operating costs is due primarily to:

Higher cost of production due to repowering of Dover facilities in the second quarter of 2013; increased generation at other Thermal facilities due to weather conditions in the first quarter of 2014, as well as increased costs in connection with Energy Systems acquisition	23
Increase in costs associated with maintenance and operations at Marsh Landing and El Segundo which reached commercial operations in 2013	19
Increase in cost associated with maintenance and operations of the Alpine, Borrego, TA High Desert and RE Kansas South facilities which reached commercial operations in the first half of 2013	2
	$ 44

Depreciation and Amortization

Depreciation and amortization increased by $40 million during the six months ended June 30, 2014, compared to the same period in 2013, due primarily to $35 million of additional depreciation associated with Marsh Landing and El Segundo in the Conventional segment, which reached commercial operations in the second and third quarters of 2013, respectively; and $4 million of additional depreciation expense in the Renewable segment for the facilities that reached commercial operations in the first and second quarters of 2013.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates increased by $9 million during the six months ended June 30, 2014 , compared to the same period in 2013, due primarily to an increase of income for CVSR and GenConn.

Interest Expense

Interest expense increased by $43 million during the six months ended June 30, 2014, compared to the same period in 2013, due primarily to an increase of $22 million in interest expense for the Marsh Landing and El Segundo projects in the Conventional segment which reached commercial operations in the second and third quarter of 2013, an increase in derivative interest expense of $15 million related to the Alpine interest rate swap, and an increase of $6 million in interest expense on the Company's revolving credit facility and affiliate debt issued in February 2014.

Liquidity and Capital Resources

The Company's principal liquidity requirements are to meet its financial commitments, finance current operations, fund capital expenditures, including acquisitions from time to time, and to service debt. Historically, the Company's predecessor operations were financed as part of NRG's integrated operations and largely relied on internally generated cash flows as well as corporate and/or project-level borrowings to satisfy its capital expenditure requirements. As a normal part of the Company's business, depending on market conditions, the Company will from time to time consider opportunities to repay, redeem, repurchase or refinance its indebtedness. Changes in the Company's operating plans, lower than anticipated sales, increased expenses, acquisitions or other events may cause the Company to seek additional debt or equity financing in future periods. There can be no guarantee that financing will be available on acceptable terms or at all. Debt financing, if available, could impose additional cash payment obligations and additional covenants and operating restrictions.

Liquidity Position

As of June 30, 2014 and December 31, 2013, the Company's liquidity was approximately $560 million and $186 million, respectively, comprised of cash, restricted cash, and availability under the Company's revolving credit facility. The increase primarily relates to the available line of credit under the revolving credit facility. The Company's various financing arrangements are described in Note 8, *Long-term Debt*.

Management believes that the Company's liquidity position, cash flows from operations and availability under our revolving credit facility will be adequate to meet our financial commitments, operating and maintenance capital expenditures and debt service obligations. Management continues to regularly monitor the Company's ability to finance the needs of its operating, financing and investing activity within the dictates of prudent balance sheet management.

Sources of Liquidity

The Company's principal sources of liquidity include cash on hand, cash generated from operations, borrowings under new and existing financing arrangements, including its revolving credit facility, and the issuance of additional equity securities as appropriate given market conditions. As described in Note 8, *Long - Term Debt*, the Company's financing arrangements consist of its intercompany borrowings with Yield Inc. and project-level financings for its various assets.

In connection with the Yield Inc. initial public offering, as further described in Note 1, *Nature of Business*, the Company and Yield Operating entered into a senior secured revolving credit facility, which provided a revolving line of credit of $60 million. On April 25, 2014, the Company amended its revolving credit facility to increase the available line of credit to $450 million and extend its maturity to April 2019. The revolving credit facility can be used for cash or for the issuance of letters of credit.

During the first quarter of 2014, Yield Inc. issued $345 million of Convertible Notes, as described in Note 8, *Long - Term Debt*. The proceeds from the issuance were loaned to Yield Operating under an intercompany borrowing arrangements in order to fund the purchase of the Acquired ROFO Assets from NRG as well as general corporate purposes, including future acquisitions.

On July 29, 2014, Yield Inc. issued 12,075,000 Class A common shares for net proceeds, after underwriting discount and expenses, of $630 million. On August 5, 2014, Yield Operating issued $500 million of Senior Notes. The Senior Notes bear interest at 5.37% and mature in 2024. The proceeds of the equity issuance were used by Yield Inc. to acquire additional Class A units of the Company. The Company utilized all of the proceeds of the Senior Notes as well as certain of the proceeds of the equity issuance to fund the acquisition of the Alta Wind Assets, with the excess of the proceeds over the amount utilized for the acquisition available for general corporate purposes.

Uses of Liquidity

The Company's requirements for liquidity and capital resources, other than for operating its facilities, are categorized as: (i) debt service obligations, as described more fully in Note 8, *Long - Term Debt*; (ii) capital expenditures; and (iii) distributions.

Capital Expenditures

The Company's capital spending program is focused on growth capital expenditures, or construction of new assets and completing the construction of new assets where construction is in process, and maintenance capital expenditures, or costs to maintain the assets currently operating such as costs to replace or refurbish assets during routine maintenance. The Company develops annual capital spending plans based on projected requirements for maintenance capital and completion of facilities under construction.

For the six months ended June 30, 2014, the Company used approximately $29 million to fund capital expenditures, including maintenance capital expenditures of $5 million. Growth capital expenditures primarily relate to the construction of Marsh Landing and El Segundo.

Acquisitions

The Company intends to acquire generation assets developed and constructed by NRG in the future, as well as generation and thermal infrastructure assets from third parties where the Company believes its knowledge of the market, operating expertise and access to capital provides a competitive advantage, and to utilize such acquisitions as a means to grow its cash available for distribution.

On June 30, 2014, the Company acquired the following NRG facilities: TA High Desert, RE Kansas South, and El Segundo for total cash consideration of $357 million plus assumed project level debt.

Cash Dividends to Investors

The Company intends to distribute to its unit holders in the form of a quarterly distribution all of the cash available for distribution that is generated each quarter less reserves for the prudent conduct of the business, including among others, maintenance capital expenditures to maintain the operating capacity of the assets. Cash available for distribution is defined as earnings before income taxes, depreciation and amortization, excluding contract amortization, cash interest paid, income taxes paid, maintenance capital expenditures, investments in unconsolidated affiliates, growth capital expenditures, net of capital and debt funding, and principal amortization of indebtedness, and including cash distributions from unconsolidated affiliates. Distributions on units are subject to available capital, market conditions, and compliance with associated laws and regulations. The Company expects that, based on current circumstances, comparable distributions will continue to be paid in the foreseeable future.

On January 30, 2014, the Company declared a distribution on its units of $0.33 per share, which was paid on March 17, 2014.

On May 5, 2014, the Company declared a distribution on its units of $0.35 per share which was paid on June 16, 2014.

Cash Flow Discussion

The following table reflects the changes in cash flows for the comparative six month periods:

	2014	2013	Change
		(In millions)	
Net cash provided by (used in) operating activities	$ 73	$ (19)	$ 92
Net cash used in investing activities	(204)	(311)	107
Net cash provided by financing activities	159	326	(167)

Net Cash Provided By Operating Activities

Changes to net cash provided by (used in) operating activities were driven by:

	(In millions)
Increase in operating income adjusted for non-cash items	$ 62
Changes in working capital	30
	$ 92

Net Cash Provided By Investing Activities

Changes to net cash used in investing activities were driven by:

		(In millions)
Payment to NRG for Acquired ROFO Assets	$	(357)
Decrease in capital expenditures as most of the projects were placed in service in late 2012 or 2013		238
Increase in proceeds from renewable grants in the first half of 2014		113
Decrease in restricted cash, primarily for Marsh Landing		96
Other		17
	$	107

Net Cash Provided By Financing Activities

Changes in net cash provided by financing activities were driven by:

		(In millions)
Decrease in dividends and returns of capital to NRG, net of cash contributions from NRG	$	111
Decrease in cash proceeds from issuance of long term debt, as well as higher principal payments in the first half of 2014 compared to the first half of 2013		(262)
Distributions paid to Yield Inc. in 2014		(15)
Increase in cash paid for deferred financing costs		(1)
	$	(167)

Off-Balance Sheet Arrangements

Obligations under Certain Guarantee Contracts

The Company may enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties.

Retained or Contingent Interests

The Company does not have any material retained or contingent interests in assets transferred to an unconsolidated entity.

Obligations Arising Out of a Variable Interest in an Unconsolidated Entity

Variable interest in equity investments — As of June 30, 2014, the Company has several investments with an ownership interest percentage of 50% or less in energy and energy-related entities that are accounted for under the equity method. One of these investments is a variable interest entity for which the Company is not the primary beneficiary.

The Company's pro-rata share of non-recourse debt held by unconsolidated affiliates was approximately $560 million as of June 30, 2014. This indebtedness may restrict the ability of these subsidiaries to issue dividends or distributions to the Company. See also Note 5, *Investments Accounted for by the Equity Method and Variable Interest Entities*.

Contractual Obligations and Commercial Commitments

The Company has a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to its capital expenditure programs. See also Note 8, *Long - Term Debt,* for additional discussion of contractual obligations incurred during the six months ended June 30, 2014.

Fair Value of Derivative Instruments

The Company may enter into long-term fuel purchase contracts and other energy-related financial instruments to mitigate variability in earnings due to fluctuations in spot market prices and to hedge fuel requirements at certain generation facilities. In addition, in order to mitigate interest rate risk associated with the issuance of variable rate and fixed rate debt, the Company enters into interest rate swap agreements.

The tables below disclose the activities that include non-exchange traded contracts accounted for at fair value in accordance with ASC 820. Specifically, these tables disaggregate realized and unrealized changes in fair value; disaggregate estimated fair values at June 30, 2014, based on their level within the fair value hierarchy defined in ASC 820; and indicate the maturities of contracts at June 30, 2014. For a full discussion of the Company's valuation methodology of its contracts, see Note 6, *Fair Value of Financial Instruments*.

Derivative Activity Gains/(Losses)	**(In millions)**
Fair value of contracts as of December 31, 2013	$ (26)
Contracts realized or otherwise settled during the period	16
Changes in fair value	(38)
Fair value of contracts as of June 30, 2014	$ (48)

	Fair Value of Contracts as of June 30, 2014				
Fair value hierarchy Gains/(Losses)	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 3-5 Years**	**Maturity in Excess 5 Years**	**Total Fair Value**
			(In millions)		
Level 2	$ (28)	$ (32)	$ (2)	$ 15	$ (47)
Level 3	(1)	—	—	—	(1)
Total	$ (29)	$ (32)	$ (2)	$ 15	$ (48)

The Company has elected to disclose derivative assets and liabilities on a trade-by-trade basis and does not offset amounts at the counterparty master agreement level. As discussed below in *Quantitative and Qualitative Disclosures about Market Risk - Commodity Price Risk,* the Company measures the sensitivity of the portfolio to potential changes in market prices using VaR, a statistical model which attempts to predict risk of loss based on market price and volatility. The Company's risk management policy places a limit on one-day holding period VaR, which limits the net open position.

Based on a sensitivity analysis using simplified assumptions, the impact of a $0.50 per MMBtu increase or decrease in natural gas prices across the term of the derivative contracts would cause a change of approximately $1 million in the net value of derivatives as of June 30, 2014.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of the financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements and related disclosures in compliance with U.S. GAAP requires the application of appropriate technical accounting rules and guidance as well as the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges, and the fair value of certain assets and liabilities. These judgments, in and of themselves, could materially affect the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment may also have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies has not changed.

On an ongoing basis, the Company evaluates these estimates, utilizing historic experience, consultation with experts and other methods the Company considers reasonable. In any event, actual results may differ substantially from the Company's estimates. Any effects on the Company's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the information that gives rise to the revision becomes known.

The Company's significant accounting policies are summarized in Note 2, *Summary of Significant Accounting Policies*. The Company identifies its most critical accounting policies as those that are the most pervasive and important to the portrayal of the Company's financial position and results of operations, and that require the most difficult, subjective and/or complex judgments by management regarding estimates about matters that are inherently uncertain. The Company's critical accounting policies include derivative instruments, impairment of long lived assets and other intangible assets, and contingencies.