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, whereas the assets and liabilities transferred to the Company relate to interests under common control by NRG and accordingly, were recorded at historical cost. 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 nine months ended September 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 collectively represents 2,861 net MW. Each of these assets sells substantially all of its output pursuant to long-term offtake agreements with creditworthy counterparties. The average remaining contract duration of these offtake agreements was approximately 18 years as of September 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 owners of power plants and participants in wholesale and retail energy markets, certain of the Company's subsidiaries are subject to regulation by various federal and state government agencies. These include FERC and the PUCT, as well as other public utility commissions in certain states where the Company's assets are located. Each of the Company's U.S. generating facilities qualifies as an EWG or QF. In addition, the Company is subject to the market rules, procedures and protocols of the various ISO and RTO markets in which it participates. Likewise, 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.

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. On September 11, 2014, the U.S. Court of Appeals for the Third Circuit affirmed the New Jersey District Court's decision.

Environmental Matters

The Company is subject to a wide range of environmental laws in the development, ownership, construction and operation of projects. These laws generally require that governmental permits and approvals be obtained before construction and during operation of facilities. Environmental laws have become increasingly stringent and the Company expects this trend to continue. The electric generation industry is likely to face new requirements to address various emissions, including GHG, and threatened and endangered species.

In January 2014, the EPA re-proposed the NSPS for CO_2 emissions from new fossil-fuel-fired electric generating units that had been previously proposed in April 2012. The re-proposed standards are 1,000 pounds of CO_2 per MWh for large gas units and 1,100 pounds of CO_2 per MWh for coal units and small gas units. Proposed standards are in effect until a final rule is published or another rule is re-proposed. On June 18, 2014, the EPA proposed a rule that would require states to develop CO_2 emission standards that would apply to existing fossil-fueled generating facilities. Specifically, the EPA proposed state-specific rate-based standards for CO_2 emissions, as well as guidelines for states to follow in developing plans to achieve the state-specific standards. The EPA anticipates finalizing this rule in June 2015.

Significant Events During the Nine Months Ended September 30, 2014

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, or the Alta Wind Assets, and a portfolio of land leases associated with the Alta Wind Assets. The purchase price for the Alta Wind Assets was $923 million, which included a base purchase price of $870 million, and a payment for working capital of $53 million, plus the assumption of $1.6 billion of non-recourse project-level debt. Terra-Gen, an affiliate of the Alta Sellers, provides the 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 is paid a fixed monthly payment (adjusted annually for inflation) and reimbursed for certain costs incurred.

Issuance of 5.375% NRG Yield Operating LLC Senior Notes

On August 5, 2014, Yield Operating LLC issued $500 million in senior unsecured notes as described in Note 8, Long - Term Debt.

Acquisition of Acquired ROFO Assets from NRG

On June 30, 2014 Yield Operating acquired 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. The assets were acquired pursuant to the Right of First Offer Agreement between the Yield Operating and NRG. Yield Operating paid NRG total cash consideration of $357 million, which represents a base purchase price of $349 million and a payment for working capital of $8 million. In addition, the acquisition included the assumption of $612 million in project level debt.

Issuance of 3.50% Convertible Notes

During the first quarter of 2014, Yield Inc. issued $345 million in aggregate principal amount of its convertible notes as described in Note 8, Long - Term Debt.

Significant Events During the Nine Months Ended September 30, 2013

During the first nine 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:

	Three months ended September 30,			Nine months ended September 30,		
(In millions except otherwise noted)	2014	2013	Change %	2014	2013	Change %
Operating Revenues						
Total operating revenues	$ 161	$ 126	28	$ 435	$ 261	67
Operating Costs and Expenses						
Cost of operations	52	44	18	157	105	50
Depreciation and amortization	34	18	89	94	38	147
General and administrative — affiliate	3	1	200	7	5	40
Acquisition-related transaction and integration costs	2	—	100	2	—	100
Total operating costs and expenses	91	63	44	260	148	76
Operating Income	70	63	11	175	113	55
Other Income (Expense)						
Equity in earnings of unconsolidated affiliates	11	12	(8)	26	18	44
Other income, net	1	—	100	2	1	100
Interest expense	(39)	(22)	77	(93)	(33)	182
Total other expense, net	(27)	(10)	170	(65)	(14)	N/M
Net Income	$ 43	$ 53	(19)	$ 110	$ 99	11

N/M - Not meaningful.

Business metrics:	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Renewable MWh sold (in thousands)	377	207	868	656
Thermal MWt sold (in thousands) [(a)]	467	389	1,576	1,251

(a) Volumes sold do not include MWh 65 thousand, 59 thousand, 189 thousand and 104 thousand for thermal generation for the three months and nine months ended September 30, 2014 and 2013, respectively.

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

Operating Revenues

	Conventional	Renewables	Thermal	Total
	(In millions)			
Three Months Ended September 30, 2014	$ 65	$ 48	$ 48	$ 161
Three Months Ended September 30, 2013	57	29	40	126

Operating revenues increased by $35 million during the three months ended September 30, 2014, compared to the same period in 2013 due to:

Increase due to the acquisition of Alta Wind Assets in August 2014	$ 18
Increase due to the acquisition of Energy Systems in December 2013	8
Increase in Conventional revenues as El Segundo reached commercial operations in July 2013 and was merchant for one month until the PPA began in August 2013	8
Increase in revenue generated from other Renewables projects	1
	$ 35

Cost of Operations

	Conventional	Renewables	Thermal	Total
	(In millions)			
Three Months Ended September 30, 2014	$ 9	$ 11	$ 32	$ 52
Three Months Ended September 30, 2013	13	3	28	44

Costs of operations changed by $8 million during the three months ended September 30, 2014, compared to the same period in 2013 due to:

Increase due to the acquisition of Alta Wind Assets in August 2014	$ 7
Increase due to the acquisition of Energy Systems in December 2013	4
Decrease in fuel costs for El Segundo as it was merchant in the prior year for one month until the PPA began in August 2013	(4)
Increased maintenance and operations costs for other Renewables projects	1
	$ 8

Depreciation and Amortization

Depreciation and amortization increased by $16 million during the three months ended September 30, 2014, compared to the same period in 2013, due primarily to additional depreciation expense associated with the Alta Wind Assets acquired in the third quarter of 2014 and El Segundo which reached commercial operations in 2013.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates decreased by $1 million during the three months ended September 30, 2014, compared to the same period in 2013 due primarily to a decrease in earnings from CVSR.

Interest Expense

Interest expense increased by $17 million during the three months ended September 30, 2014, compared to the same period in 2013, due to interest expense of $11 million on the assumed debt as a result of the Alta Wind Assets acquisition, interest expense of $7 million on the Company's affiliate debt issued in February 2014, and the Company's Senior Notes issued in August 2014.

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

Operating Revenues

	Conventional	Renewables	Thermal	Total
	(In millions)			
Nine Months Ended September 30, 2014	$ 182	$ 97	$ 156	$ 435
Nine Months Ended September 30, 2013	77	71	113	261

Operating revenues increased by $174 million during the nine months ended September 30, 2014, compared to the same period in 2013 due to:

Increase in Conventional revenues as El Segundo and Marsh Landing reached commercial operations in 2013	$ 105
Increase in Thermal revenues 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	43
Increase due to the acquisition of Alta Wind Assets in August 2014	18
Increase in Renewables revenue generated by RE Kansas South, TA High Desert, Alpine and Borrego facilities which reached commercial operations in the first half of 2013	8
	$ 174

Cost of Operations

	Conventional	Renewables	Thermal	Total
	(In millions)			
Nine Months Ended September 30, 2014	$ 31	$ 18	$ 108	$ 157
Nine Months Ended September 30, 2013	16	8	81	105

Cost of operations increased by $52 million during the nine months ended September 30, 2014, compared to the same period in 2013 due 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, and increased costs in connection with the Energy Systems acquisition	$ 27
Increase in costs associated with maintenance and operations at Marsh Landing and El Segundo which reached commercial operations in 2013	15
Increase due to acquisition of Alta Wind Assets in August 2014	7
Increase in costs associated with maintenance and operations of RE Kansas South, TA High Desert, Alpine and Borrego facilities which reached commercial operations in the first half of 2013	3
	$ 52

Depreciation and Amortization

Depreciation and amortization increased by $56 million during the nine months ended September 30, 2014, compared to the same period in 2013, due primarily to $42 million of additional depreciation associated with El Segundo and Marsh Landing in the Conventional segment, which reached commercial operations in the third and second quarters of 2013, respectively; $7 million from the acquisition of the Alta Wind Assets; and $4 million for other solar 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 $8 million during the nine months ended September 30, 2014, compared to the same period in 2013, due to an increase of income for CVSR.

Interest Expense

Interest expense increased by $60 million during the nine months ended September 30, 2014, compared to the same period in 2013, primarily due to:

Increase in interest expense for the Marsh Landing and El Segundo projects which reached commercial operations in 2013 which resulted in lower capitalized interest in 2014	$ 20
Issuance of affiliate debt in February 2014, Senior Notes in August 2014 and to a lesser extent increased interest expense on the Company's revolving credit facility	12
Increase in interest expense related to the Alpine interest rate swap	14
Interest expense on the assumed project-level debt as the result of Alta Wind Assets acquisition in August 2014	11
Interest expense on other facilities from the Renewable segment which reached commercial operations in the first half of 2013	3
	$ 60

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 September 30, 2014 and December 31, 2013, the Company's liquidity was approximately $849 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, and the issuance of additional equity and debt 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 partially 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, and the excess of the proceeds over the amount utilized is available for general corporate purposes, including future acquisitions.

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 nine months ended September 30, 2014, the Company used approximately $28 million to fund capital expenditures, including capital expenditures of $25 million that primarily relate to the remaining invoices for the construction of Marsh Landing and El Segundo in 2013, as well as maintenance capital expenditures of $3 million.

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 November 4, 2014, the Company and NRG entered into a definitive agreement regarding the acquisition of the following NRG facilities: (i) Walnut Creek, (ii) Tapestry (Pinnacle, Buffalo Bear and Taloga) and (iii) Laredo Ridge for total expected cash consideration of $480 million plus assumed project level debt and working capital adjustments to be calculated at close. The sale is subject to customary closing conditions and is expected to close by the end of the fourth quarter of 2014. The Company expects to fund the acquisition with cash on hand and drawings under the Company's revolving credit facility.

On August 12, 2014, the Company 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 for $923 million, which included a base purchase price of $870 million, as well as a payment for working capital of $53 million, plus the assumption of $1.6 billion of non-recourse project-level debt. In order to fund the purchase price, Yield Inc. completed an equity offering of 12,075,000 shares of its Class A common stock at an offering price of $54.00 per share on July 29, 2014, which resulted in net proceeds of $630 million, after underwriting discount and expenses. In addition, on August 5, 2014, Yield Operating issued $500 million of Senior Notes, which bear interest at a rate of 5.375% and mature in August 2024. The excess of the proceeds over the amount utilized for the acquisition is available for general corporate purposes, including future acquisitions.

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. On July 29, 2014, the Company declared a distribution on its units of $0.365 per share which was paid on September 15, 2014.

Cash Flow Discussion

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

	2014	2013	Change
		(In millions)	
Net cash provided by operating activities	$ 194	$ 90	$ 104
Net cash used in investing activities	(1,121)	(418)	(703)
Net cash provided by financing activities	1,240	427	813

Net Cash Provided By Operating Activities

Changes to net cash provided by operating activities were driven by:

	(In millions)
Increase in operating income adjusted for non-cash items	$ 111
Changes in working capital	(7)
	$ 104

Net Cash Used In Investing Activities

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

	(In millions)
Payment to NRG for Acquired ROFO Assets	$ (357)
Payment for acquisition of Alta Wind Assets	(901)
Decrease in capital expenditures as most of the projects were placed in service in late 2012 or 2013	311
Increase in proceeds from renewable grants in the first half of 2014	113
Decrease in restricted cash, primarily for Marsh Landing	116
Other	15
	$ (703)

Net Cash Provided By Financing Activities

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

	(In millions)
Increase due to the additional equity offering of Class A units on July 29, 2014	$ 162
Increase in cash proceeds from issuance of Senior Notes and other long term debt, partially offset by higher principal payments in the first nine months of 2014 compared to the first nine of 2013	200
Decrease in dividends and distributions, net of contribution paid in the first nine months of 2014 compared to the first nine months of 2013	464
Increase in cash paid for debt issuance fees	(13)
	$ 813

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 September 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 $568 million as of September 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 nine months ended September 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 September 30, 2014, based on their level within the fair value hierarchy defined in ASC 820; and indicate the maturities of contracts at September 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	22
Contracts acquired during the period	(5)
Changes in fair value	(37)
Fair value of contracts as of September 30, 2014	$ (46)

	Fair Value of Contracts as of September 30, 2014				
Fair value hierarchy Gains/(Losses)	1 Year or Less	Greater than 1 Year to 3 Years	Greater than 3 Years to 5 Years	Greater than 5 Years	Total Fair Value
			(In millions)		
Level 2	$ (30)	$ (27)	$ 2	$ 9	$ (46)

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 September 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.