

NRG ENERGY, INC.
Form 10-K
February 28, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year ended December 31, 2006.**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition period from to .**

Commission file No. 001-15891

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

**211 Carnegie Center
Princeton, New Jersey**

(Address of principal executive offices)

41-1724239

(I.R.S. Employer Identification No.)

08540

(Zip Code)

(609) 524-4500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value \$0.01	New York Stock Exchange
5.75% Mandatory Convertible Preferred Stock	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of the last business day of the most recently completed second fiscal quarter, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$6,599,652,171 based on the closing sale price of \$48.18 as reported on the New York Stock Exchange.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Class	Outstanding at February 23, 2007
Common Stock, par value \$0.01 per share	122,335,466

Documents Incorporated by Reference:

Portions of the Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on April 25, 2007

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Glossary of Terms

Glossary of Terms (continued)

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below:

ABWR	Advanced Boiling Water Reactor
Acquisition	February 2, 2006 acquisition of Texas Genco LLC, now referred to as the Company's Texas region
Acquisition Agreement	Acquisition Agreement dated September 30, 2005 underlying the February 2, 2006 acquisition of the Company's Texas region
AMA	Administrative Management Agreement between NRG Development Company, Inc. and West Coast Power, LLC
APB	Accounting Principles Board
APB 18	APB Opinion No. 18, <i>The Equity Method of Accounting for Investments in Common Stock</i>
Average gross heat rate	The product of dividing (a) fuel consumed in BTUs by (b) KWh generated
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
Baseload capacity	Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year
BTA	Best Technology Available
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CAMR	Clean Air Mercury Rule
Capacity factor	The ratio of the actual net electricity generated to the energy that could have been generated at continuous full-power operation during the year
Capital Allocation Program	Share repurchase program entered into August 2006
CDWR	California Department of Water Resources
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CL&P	Connecticut Light & Power
CO ₂	Carbon dioxide
CPUC	California Public Utilities Commission
Derate	A derate exists whenever a generating unit is not capable of operating at its tested dependable maximum net capability
DNREC	Delaware Department of Natural Resources and Environmental Control
EAF	The total available hours a unit is available in a year minus the sum of all partial outage events in a year converted to equivalent hours, expressed as a percent of all hours in the year
EFOR	Equivalent Forced Outage Rates considers the equivalent impact that forced de-ratings have in addition to full forced outages
EITF	Emerging Issues Task Force
EITF 02-3	EITF Issue No. 02-3, <i>Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy</i>

EPAct of 2005
EPC

Trading and Risk Management Activities
Energy Policy Act of 2005
Engineering, Procurement and Construction

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ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas
ERO	Energy Reliability Organization
EWG	Exempt Wholesale Generator
Expected annual baseload generation	The net baseload capacity limited by economic factors (relationship between cost of generation and market price) and reliability factors (scheduled and unplanned outages)
FASB	Financial Accounting Standards Board, the designated organization for establishing standards for financial accounting and reporting
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulphurization
FIN	FASB Interpretation
FIN 45	FIN No. 45 <i>Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others</i>
FIP	Federal Implementation Plan
Fresh Start	Reporting requirements as defined by SOP 90-7
GHG	Greenhouse Gases
Hedge Reset	Net settlement of long-term power contracts and gas swaps by negotiating prices to current market completed in November 2006
Hg	Mercury
ICT	Independent Coordinator of Transmission
IGCC	Integrated Gasification Combined Cycle
IRS	Internal Revenue Service
ISO	Independent System Operator, also referred to as Regional Transmission Organizations, or RTO
ISO-NE	ISO New England, Inc.
ITISA	Itiquira Energetica S.A.
kW	Kilowatts
KWh	Kilowatt-hours
LADEQ	Louisiana Department of Environmental Quality
LFRM	Locational Factor Reserve Market
LIBOR	London Inter-Bank Offered Rate
LNB/OFA	Low NOx Burner with Over Fire Air
LSE	Load-Serving Entity
MACT	Maximum Achievable Control Technology
MADEP	Massachusetts Department of Environmental Protection
MDL	Multi-District Litigation
Merit Order	A term used for the ranking of power stations in terms of increasing order of fuel costs
MIBRAG	Mitteldeutsche Braunkohlengesellschaft mbH
Moody's	Moody's Investors Services, Inc., a credit rating agency
MMBtu	Million British Thermal Units
MRTU	Market Redesign and Technology Upgrade
MW	Megawatts

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MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
NAAQS	National Ambient Air Quality Standards
Net baseload capacity	Nominal summer net megawatt capacity of power generation adjusted for ownership and parasitic load, and excluding capacity from mothballed units as of December 31, 2006
Net Capacity Factor	Net actual generation divided by net maximum capacity for the period hours
Net Generating Capacity	Nominal summer capacity, net of auxiliary power
New York Rest of State	New York State excluding New York City
NiMo	Niagara Mohawk Power Corporation
NOx	Nitrogen oxide
NOL	Net Operating Loss
NOV	Notice of Violation
NRC	United States Nuclear Regulatory Commission
NSR	New Source Review
NYPA	New York Power Authority
NYISO	New York Independent System Operator
NYSDEC	New York Department of Environmental Conservation
OCI	Other Comprehensive Income
OTC	Ozone Transport Commission
Phase II 316(b) Rule	A section of the Clean Water Act regulating cooling water intake structures
PJM	PJM Interconnection, LLC
PJM Market	The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia
PM ^(2.5)	Fine particulate matter
PMI	NRG Power Marketing, Inc., a wholly-owned subsidiary of NRG which procures transportation and fuel for the Company's generation facilities, sells the power from these facilities, and manage, all commodity trading and hedging for NRG
Powder River Basin, or PRB, Coal	Coal produced in the northeastern Wyoming and southeastern Montana, which has low sulfur content
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PUHCA	Public Utility Holding Company Act of 2005
PURPA	Public Utility Regulatory Policy Act of 2005
RCRA	Resource Conservation and Recovery Act
RECLAIM	Regional Clean Air Incentives Market
<i>Repowering NRG</i>	Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency
RFP	Request for proposal
RGGI	Regional Greenhouse Gas Initiative

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RMR	Reliability Must-Run
ROIC	Return on invested capital
RTC	RECLAIM Trading Credit
RTO	Regional Transmission Organization, also referred to as an ISO
S&P	Standard & Poor's, a credit rating agency
SARA	Superfund Amendments and Reauthorization Act of 1986
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SCAQMD	South Coast Air Quality Management District
Schkopau	Kraftwerk Schkopau Betriebsgesellschaft mbH, an entity in which NRG has a 41.9% interest
SCR	Selective Catalytic Reduction
SDG&E	San Diego Gas & Electric
SEC	United States Securities and Exchange Commission
Sellers	Former holders of Texas Genco LLC shares
SERC	Southeastern Electric Reliability Council/Entergy
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 71	SFAS No. 71 <i>Accounting for the Effects of Certain Types of Regulation</i>
SFAS 87	SFAS No. 87, <i>Employers' Accounting for Pensions</i>
SFAS 106	SFAS No. 106, <i>Employers' Accounting for Postretirement Benefits Other Than Pensions</i>
SFAS 109	SFAS No. 109, <i>Accounting for Income Taxes</i>
SFAS 123	SFAS No. 123, <i>Accounting for Stock-Based Compensation</i>
SFAS 123R	SFAS No. 123 (revised 2004), <i>Share-Based Payment</i>
SFAS 133	SFAS No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i>
SFAS 137	SFAS No. 137, <i>Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133</i>
SFAS 138	SFAS No. 138, <i>Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133</i>
SFAS 142	SFAS No. 142, <i>Goodwill and Other Intangible Assets</i>
SFAS 143	SFAS No. 143, <i>Accounting for Asset Retirement Obligations</i>
SFAS 144	SFAS No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i>
SFAS 149	SFAS No. 149, <i>Amendment of Statement 133 on Derivative Instruments and Hedging Activities</i>
SFAS 158	SFAS No. 158, <i>Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)</i>
SFAS 159	SFAS No. 159, <i>The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115</i>
SNCR	Selective non-catalytic reduction
SIP	State Implementation Plan
SO ₂	Sulfur dioxide

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SOP	Statement of Position issued by the American Institute of Certified Public Accountants
SOP 90-7	Statement of Position 90-7 <i>Financial Reporting by Entities in Reorganization Under the Bankruptcy Code</i>
SPP	Southwest Power Pool
STP	South Texas Project Nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
STPNOC	South Texas Project Nuclear Operating Company
TCEQ	Texas Commission on Environmental Quality
Texas Genco	Texas Genco LLC, now referred to as the Company's Texas region
Uprate	A sustainable increase in the electrical rating of a generating facility
US	United States of America
USEPA	United States Environmental Protection Agency
U.S. GAAP	Accounting principles generally accepted in the United States
VAR	Value at Risk
Virtual Units	Products sold with scheduling characteristics for energy and ancillary services that are based on an underlying unit physical characteristic
VOC	Volatile Organic Carbon
WCP	WCP (Generation) Holdings, Inc.

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NRG Energy, Inc., NRG, or the Company, is a wholesale power generation company with a significant presence in major competitive power markets in the United States. NRG is primarily engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the trading of energy, capacity and related products in the United States and internationally. As of December 31, 2006, NRG had a total global portfolio of 223 active operating generation units at 51 power generation plants, with an aggregate generation capacity of approximately 24,175 MW. Within the United States, the Company has one of the largest and most diversified power generation portfolios in terms of geography, fuel-type and dispatch levels, with approximately 22,940 MW of generation capacity in 207 active generating units at 45 plants. These power generation facilities are primarily located in Texas (approximately 10,760 MW), and the Northeast (approximately 7,240 MW), South Central (approximately 2,850 MW), and the West (approximately 1,965 MW) regions of the United States, with approximately 125 MW from the Company's thermal assets. NRG's principal domestic power plants consist of a diversified mix of natural gas-, coal-, oil-fired and nuclear facilities, representing approximately 45%, 34%, 16% and 5% of the Company's total domestic generation capacity, respectively. In addition, 15% of NRG's domestic generating facilities have dual or multiple fuel capacity, which allows plants to dispatch with the lowest cost fuel option, and consist primarily of baseload, intermediate and peaking power generation facilities, which are referred to as the merit order, and also include thermal energy production plants. The sale of capacity and power from baseload generation facilities accounts for the majority of the Company's revenues and provides a stable source of cash flow. In addition, NRG's diverse generation portfolio provides the Company with opportunities to capture additional revenues by selling power during periods of peak demand, offering capacity or similar products to retail electric providers and others, and providing ancillary services to support system reliability. In addition, NRG is pursuing opportunities to repower existing facilities and develop new generation capacity in markets in which NRG currently owns assets in an initiative referred to as *Repowering NRG*. In connection with NRG's acquisition of Padoma Wind Power LLC, the Company has and will continue to actively evaluate and potentially develop or construct domestic terrestrial wind projects as part of the *Repowering NRG* program.

Business Strategy

NRG's strategy is to optimize the value of the Company's generation assets while using its asset base as a platform for growth and enhanced financial performance which can be sustained and expanded upon in the years to come. NRG plans to maintain and enhance the Company's position as a leading wholesale power generation company in the United States in a cost-effective and risk-mitigating manner in order to serve the bulk power requirements of NRG's existing customer base and other entities that offer load or otherwise consume wholesale electricity products and services in bulk. NRG's strategy includes the following elements:

Pursue additional growth opportunities at existing sites NRG is favorably positioned to pursue growth opportunities through expansion of its existing generating capacity and development of new generating capacity at its existing facilities. NRG intends to invest in its existing assets through plant improvements, repowerings, brownfield development and site expansions to meet anticipated requirements for additional capacity in NRG's core markets. In furtherance of this goal, NRG has initiated a company-wide program, known as *Repowering NRG*, to develop, construct and operate new and enhanced power generation facilities at its existing sites, with an emphasis on new baseload capacity that is supported by long-term power sales agreements and financed with limited or non-recourse

project financing. NRG expects that these efforts will provide one or more of the following benefits: improved heat rates; lower delivered costs; expanded electricity production capability; an improved ability to dispatch economically across the merit order; increased technological and fuel diversity; and reduced environmental impacts, including facilities that either have near zero greenhouse gas emissions or can be equipped to capture and sequester greenhouse gas emissions.

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Increase value from existing assets NRG has a highly diversified portfolio of power generation assets in terms of region, fuel-type and dispatch levels. NRG will continue to focus on extracting value from its portfolio by improving plant performance, reducing costs and harnessing the Company's advantages of scale in the procurement of fuels and other commodities, parts and services, and in doing so improve the Company's return on invested capital, or ROIC—a strategy that NRG has branded *FORNRG*, or Focus on ROIC@NRG.

Maintain financial strength and flexibility NRG remains focused on cash flow and maintaining appropriate levels of liquidity, debt and equity in order to ensure continued access to capital for investment, to enhance risk-adjusted returns and to provide flexibility in executing NRG's business strategy. NRG will continue to focus on maintaining operational and financial controls designed to ensure that the Company's financial position remains strong. At the same time, NRG expects to continue its practice of returning excess cash flows to its debt and equity investors on a regular basis.

Reduce the volatility of the Company's cash flows through asset-based commodity hedging activities NRG will continue to execute asset-based risk management, hedging, marketing and trading strategies within well defined risk and liquidity guidelines in order to manage the value of the Company's physical and contractual assets. The Company's marketing and hedging philosophy is centered on generating stable returns from its portfolio of baseload power generation assets while preserving an ability to capitalize on strong spot market conditions and to capture the extrinsic value of the Company's intermediate and peaking facilities and portions of its baseload fleet. NRG believes that it can successfully execute this strategy by leveraging its expertise in marketing power and ancillary services, its knowledge of markets, its balanced financial structure and its diverse portfolio of power generation assets.

Pursue strategic acquisitions and divestitures NRG will continue to pursue selective acquisitions, joint ventures and divestitures to enhance its asset mix and competitive position in the Company's core regions. NRG intends to concentrate on opportunities that present attractive risk-adjusted returns. NRG will also opportunistically pursue other strategic transactions, including mergers, acquisitions or divestitures.

Competition and Competitive Strengths

Competition Wholesale power generation is a capital-intensive, commodity-driven business with numerous industry participants. NRG competes on the basis of the location of its plants and owning multiple plants in its regions, which increases the stability and reliability of its energy supply. Wholesale power generation is basically a local business that is currently highly fragmented relative to other commodity industries and diverse in terms of industry structure. As such, there is a wide variation in terms of the capabilities, resources, nature and identity of the companies NRG competes against depending on the market.

Scale and diversity of assets NRG has one of the largest and most diversified power generation portfolios in the United States, with approximately 22,940 MW of generation capacity in 207 active generating units at 45 plants as of December 31, 2006. The Company's power generation assets are diversified by fuel-type, dispatch level and region, which help mitigate the risks associated with fuel price volatility and market demand cycles. NRG's U.S. baseload facilities, which consist of approximately 8,745 MW of generation capacity measured as of December 31, 2006, provide the Company with a significant source of stable cash flow, while its intermediate and peaking facilities, with approximately 14,195 MW of generation capacity as of December 31, 2006, provide NRG with opportunities to capture the significant upside potential that can arise from time to time during periods of high demand. In addition, approximately 15% of the Company's domestic generation facilities have dual or multiple fuel capability, which allows most of these plants to dispatch with the lowest cost fuel option.

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The following chart demonstrates the diversification of NRG's domestic power generation assets as of December 31, 2006:

Reliability of future cash flows NRG has sold forward or otherwise hedged a significant portion of its expected baseload generation capacity through 2012. The Company has the capacity and intent to enter into additional hedges in later years when market conditions are favorable. In addition, as of December 31, 2006, the Company has purchased forward under fixed price contracts (with contractually-specified price escalators) to provide fuel for approximately 73% of its expected baseload coal generation output from 2007 to 2012. These forward positions provide a stable and reliable source of future cash flow for NRG's investors, while preserving a portion of its generation portfolio for opportunistic sales to take advantage of market dynamics.

Favorable market dynamics for baseload power plants In 2006, approximately 83% of the Company's domestic generation was fueled by coal or nuclear fuel. In many of the competitive markets where NRG operates, the price of power is typically set by the marginal costs of natural gas-fired and oil-fired power plants that currently have substantially higher variable costs than solid fuel baseload power plants. As a result of NRG's lower marginal cost for baseload coal and nuclear generation assets, the Company expects these ERCOT assets to generate power nearly 100% of the time they are available.

Locational advantages Many of NRG's generation assets are located within densely populated areas that are characterized by significant constraints on the transmission of power from generators outside the region. Consequently, these assets are able to benefit from the higher prices that prevail for energy in these markets during periods of transmission constraints. NRG has generation assets located within New York City, southwestern Connecticut, Houston and the Los Angeles and San Diego load basins; all areas with constraints on the transmission of electricity. This gives the Company the opportunity to capture additional revenues through offering capacity to retail electric providers and others, selling power at prevailing market prices during periods of peak demand and providing ancillary services in support of system reliability. These facilities are often ideally situated for repowering or the addition of new capacity, as well, because their location and existing infrastructure give them significant advantages over newly developed sites in their regions.

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The following table contains a summary of NRG's operating revenues by segment for the year ended December 31, 2006. The table also reflects the realignment of the Company's new segment structure as discussed in Item 15 Note 17, *Segment Reporting*, to the Consolidated Financial Statements.

Region	Energy Revenues	Capacity Revenues	Risk Management Activities	Contract Amortization	Thermal Revenues	Hedge Reset	Other Revenues^(c)	Total Operating Revenues
	(In millions)							
Texas ^(a)	\$ 1,726	\$ 849	\$ (30)	\$ 609	\$	\$ (129)	\$ 63	\$ 3,088
Northeast	966	321	144				112	1,543
South Central	334	199	13	19			5	570
West ^(b)	75	68	(3)				6	146
International	80	79					14	173
Thermal	12				124		16	152
Corporate/Eliminations								