

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

Report of Independent Registered Public Accounting Firm

The Board of Directors

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

We have audited the accompanying consolidated balance sheets of Reliant Energy Mid-Atlantic Power Holdings, LLC and subsidiaries (the Company), as of December 31, 2007 and 2006, and the related consolidated statements of operations, member's equity and comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reliant Energy Mid-Atlantic Power Holdings, LLC and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in notes 8 and 7 to the consolidated financial statements, the Company changed its accounting for income tax uncertainties in 2007 and defined benefit pension and other postretirement plans in 2006, respectively.

KPMG LLP

Houston, Texas
February 25, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Reliant Energy Northeast Generation, Inc., Sole Member of Reliant Energy Mid-Atlantic Power Holdings, LLC
Houston, Texas

We have audited the accompanying consolidated statements of operations, member's equity and comprehensive income, and cash flows of Reliant Energy Mid-Atlantic Power Holdings, LLC and subsidiaries (the "Company") for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Reliant Energy Mid-Atlantic Power Holdings, LLC and subsidiaries for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Houston, Texas
March 14, 2006

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

	2007	2006	2005
	(thousands of dollars)		
Revenues:			
Revenues.....	\$ (10,235)	\$ 26,107	\$ 42,906
Revenues – affiliates.....	696,856	539,701	587,336
Total.....	686,621	565,808	630,242
Expenses:			
Cost of sales.....	244,695	239,686	230,391
Cost of sales – affiliates.....	9,930	15,329	20,465
Operation and maintenance.....	104,600	91,915	72,712
Operation and maintenance – affiliates.....	57,831	48,155	45,997
Facilities leases.....	59,848	59,848	59,848
General and administrative – affiliates.....	44,029	43,017	44,956
Gains on sales of assets and emission allowances, net ..	(1,969)	(71,323)	(109,798)
Depreciation and amortization.....	88,449	71,315	83,544
Total operating expense.....	607,413	497,942	448,115
Operating Income	79,208	67,866	182,127
Other Income (Expense):			
Other, net.....	–	1	53
Interest expense.....	(1,230)	(1,095)	(1,418)
Interest expense – affiliates.....	(70,485)	(68,921)	(64,746)
Interest income.....	837	655	939
Total other expense.....	(70,878)	(69,360)	(65,172)
Income (Loss) Before Income Taxes	8,330	(1,494)	116,955
Income tax expense (benefit).....	5,262	(9,842)	14,579
Income Before Cumulative Effect of Accounting Change	3,068	8,348	102,376
Cumulative effect of accounting change, net of tax.....	–	–	(225)
Net Income	\$ 3,068	\$ 8,348	\$ 102,151

See Notes to the Consolidated Financial Statements

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

	December 31,	
	2007	2006
	(thousands of dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 28,536	\$ 17,274
Restricted cash	1,663	-
Accounts receivable	4,875	4,595
Receivables from affiliates, net	59,180	11,466
Inventory	81,382	80,689
Prepaid lease	59,030	59,030
Derivative assets	12,374	1,744
Accumulated deferred income taxes	11,319	9,751
Prepayments and other current assets	7,227	7,558
Total current assets	<u>265,586</u>	<u>192,107</u>
Property, Plant and Equipment, net	<u>681,675</u>	<u>679,319</u>
Other Assets:		
Goodwill, net	3,635	3,635
Other intangibles, net	98,732	105,642
Accumulated deferred income taxes	48,968	68,378
Prepaid lease	270,133	264,328
Other	43,646	41,098
Total other assets	<u>465,114</u>	<u>483,081</u>
Total Assets	<u>\$ 1,412,375</u>	<u>\$ 1,354,507</u>
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 89	\$ 83
Accounts payable, principally trade	28,543	16,142
Subordinated accounts payable to affiliates, net	193,897	160,308
Subordinated interest payable to affiliates, net	29,800	63,587
Derivative liabilities	37,614	22,695
Other	18,389	17,168
Total current liabilities	<u>308,332</u>	<u>279,983</u>
Other Liabilities:		
Derivative liabilities	123,794	117,269
Benefit obligations	39,289	42,021
Other	19,597	18,459
Total other liabilities	<u>182,680</u>	<u>177,749</u>
Subordinated Note Payable to Affiliate	<u>618,658</u>	<u>618,658</u>
Long-term Debt	<u>642</u>	<u>731</u>
Commitments and Contingencies		
Member's Equity:		
Common stock; no par value (1,000 shares authorized, issued and outstanding)	-	-
Additional paid-in capital	284,672	284,672
Retained earnings	82,455	79,387
Accumulated other comprehensive loss	(65,064)	(86,673)
Total member's equity	<u>302,063</u>	<u>277,386</u>
Total Liabilities and Member's Equity	<u>\$ 1,412,375</u>	<u>\$ 1,354,507</u>

See Notes to the Consolidated Financial Statements

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

	2007	2006	2005
	(thousands of dollars)		
Cash Flows from Operating Activities:			
Net income	\$ 3,068	\$ 8,348	\$ 102,151
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Cumulative effect of accounting changes	–	–	225
Depreciation and amortization	88,449	71,315	83,544
Deferred income taxes	4,341	(14,112)	2,385
Non-cash federal income tax contributions from Reliant Energy, Inc., net	–	–	3,826
Net changes in energy derivatives	35,711	(5,422)	5,885
Gains on sales of assets and emission allowances, net	(1,969)	(71,323)	(109,798)
Other, net	(27)	(59)	(493)
Changes in other assets and liabilities:			
Accounts receivable	(280)	(140)	1,321
Accounts receivable from affiliates, net	(47,624)	24,823	13,820
Inventory	(693)	291	(9,216)
Prepaid lease	(5,805)	(4,916)	(15,949)
Accounts payable	3,976	272	(857)
Other current assets	246	1,602	(8,536)
Other current liabilities	199	4,328	(1,773)
Other assets	337	(9,925)	(1,218)
Subordinated accounts payable to affiliates, net	42,531	30,393	(21,700)
Subordinated interest payable to affiliates, net	(33,787)	(41,172)	(186,822)
Income taxes payable/receivable	698	(17,051)	17,279
Other liabilities	3,029	(1,737)	9,160
Net cash provided by (used in) operating activities	<u>92,400</u>	<u>(24,485)</u>	<u>(116,766)</u>
Cash Flows from Investing Activities:			
Capital expenditures	(33,172)	(14,360)	(7,785)
Proceeds from sales of assets, net	124	1,238	42,560
Proceeds from sales of emission allowances	628	1,141	8,519
Proceeds from sales of emission allowances – affiliates	3,744	73,140	99,903
Purchases of emission allowances – affiliates	(50,799)	(50,467)	(34,834)
Restricted cash	(1,663)	–	28,652
Net cash provided by (used in) investing activities	<u>(81,138)</u>	<u>10,692</u>	<u>137,015</u>
Cash Flows from Financing Activities:			
Payments of long-term debt	–	–	(28,211)
Net cash used in financing activities	<u>–</u>	<u>–</u>	<u>(28,211)</u>
Net Change in Cash and Cash Equivalents	11,262	(13,793)	(7,962)
Cash and Cash Equivalents at Beginning of Period	17,274	31,067	39,029
Cash and Cash Equivalents at End of Period	<u>\$ 28,536</u>	<u>\$ 17,274</u>	<u>\$ 31,067</u>
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest paid to affiliate (net of amounts capitalized)	\$ 91,884	\$ 107,364	\$ 244,976
Interest paid to third parties	286	1,338	1,539
Income taxes paid (net of income tax refunds received)	221	21,322	(1,739)
Non-cash Disclosure:			
Contributions from Reliant Energy, Inc., net	–	33,152	17,826

See Notes to the Consolidated Financial Statements

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

(continued)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>			<u>Total Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Member's Equity</u>	<u>Comprehensive Income (Loss)</u>
	<u>Shares</u>	<u>Amount</u>			<u>Deferred Derivative Gains (Losses)</u>	<u>Benefits Actuarial Net Gain (Loss)</u>	<u>Benefits Net Prior Service Costs</u>			
Balance, December 31, 2006	1,000	\$ -	\$ 284,672	\$ 79,387	\$ (81,075)	\$ (2,861)	\$ (2,737)	\$ (86,673)	\$ 277,386	
Net income				3,068					3,068	\$ 3,068
Deferred gain from cash flow hedges, net of tax of \$3 million					2,929			2,929	2,929	2,929
Reclassification of net deferred loss from cash flow hedges, net of tax of \$9 million					12,802			12,802	12,802	12,802
Reclassification of net prior service costs into net loss, net of tax of \$0							593	593	593	593
Reclassification of actuarial net loss into net loss, net of tax of \$0						40		40	40	40
Deferred benefits, net of tax of \$1 million and \$2 million						2,851	2,394	5,245	5,245	5,245
Comprehensive income										\$ 24,677
Balance, December 31, 2007	<u>1,000</u>	<u>\$ -</u>	<u>\$ 284,672</u>	<u>\$ 82,455</u>	<u>\$ (65,344)</u>	<u>\$ 30</u>	<u>\$ 250</u>	<u>\$ (65,064)</u>	<u>\$ 302,063</u>	

See Notes to the Consolidated Financial Statements

RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

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

REMA owns or leases interests in 16 operating electric generation plants in Pennsylvania, New Jersey and Maryland with an annual average net generating capacity of approximately 3,644 megawatts (MW).

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

(2) Summary of Significant Accounting Policies

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

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

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

REMA’s critical accounting estimates include: (a) fair value of property, plant and equipment and derivative assets and liabilities and (b) deferred tax assets, valuation allowances and tax liabilities. Actual results could differ from the estimates.

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

(b) Principles of Consolidation.

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

(c) Power Generation and Capacity Revenues.

REMA records gross revenues from the sale of electricity and other energy services under the accrual method. Electric power and other energy services are sold at market-based prices through existing power exchanges, related party affiliates or third party contracts. Energy sales and services that have been delivered but not billed by period-end are estimated. During 2007, 2006 and 2005, REMA recognized \$(46) million, \$4 million and \$5 million in unrealized gains (losses) on energy derivatives included in revenues from third parties. See notes 2(d) and 5.

(d) Derivatives and Hedging Activities.

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

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

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

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

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

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

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

(1) The purpose for holding or issuing is not impacted by the accounting method elected for each instrument.

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

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

Effective September 1, 2006, REMA de-designated certain cash flow hedges of coal contracts and either began utilizing the mark-to-market method of accounting or elected the normal purchase/normal sale exception. During the first quarter of 2007, REMA de-designated its remaining cash flow hedges; therefore, REMA has no outstanding cash flow hedges as of December 31, 2007.

Set-off of Derivative Assets and Liabilities. Where derivative instruments are subject to a master netting agreement and the accounting criteria to offset are met, REMA presents its derivative assets and liabilities on a net basis. Derivative assets/liabilities and accounts receivable/payable are presented and set-off separately in the consolidated balance sheets although in most cases contracts permit the set-off of derivative assets/liabilities and accounts receivable/payable with a given counterparty. However, REMA does not offset collateral (net margin deposits) related to these derivatives.

New Accounting Pronouncement Not Yet Adopted — Offsetting of Amounts. The FASB issued FSP FIN 39-1, an amendment of FASB Interpretation No. 39 (FIN 39), which was applicable for REMA beginning January 1, 2008. This interpretation allows either (a) offsetting assets and liabilities for derivative instruments under a common master netting arrangement only if the fair value amounts recognized for any related cash collateral are also offset or (b) presenting these amounts gross.

Effective January 1, 2008, REMA plans to discontinue netting its derivative assets and liabilities and present them on a gross basis. Cash collateral amounts will remain presented on a gross basis. This change will significantly increase REMA's derivative assets and liabilities retrospectively for all financial statements presented.

Effective January 1, 2008, REMA plans to discontinue netting its derivative assets and liabilities and present its derivative assets and liabilities on a gross basis. Cash collateral amounts will remain presented on a gross basis.

(e) Credit Risk.

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

REMA's credit exposure is based on its derivative assets and accounts receivable from counterparties, after taking into consideration netting within each contract and any master netting contracts with counterparties. REMA provides reserves for non-investment grade counterparties representing a significant portion of its credit exposure. As of December 31, 2007, one non-investment grade counterparty represented 100% (\$10 million) of REMA's credit exposure. As of December 31, 2006, REMA's credit exposure to any individual counterparty was not significant.

(f) General and Administrative Expenses – Affiliates.

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

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

REMA computes depreciation using the straight-line method based on estimated useful lives. Depreciation expense was \$33 million, \$32 million and \$33 million during 2007, 2006 and 2005, respectively.

	Estimated Useful Lives (Years)	December 31,	
		2007	2006
(in millions)			
Electric generation facilities	20 – 30	\$ 834	\$ 823
Other	3 – 26	11	11
Land		26	26
Assets under construction		38	15
Total		909	875
Accumulated depreciation		(227)	(196)
Property, plant and equipment, net		\$ 682	\$ 679

REMA periodically evaluates property, plant and equipment for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. The evaluation is highly dependent on the underlying assumptions of related cash flows. REMA recorded no material property, plant and equipment impairments during 2007, 2006 and 2005.

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

(h) Intangible Assets and Amortization Expense.

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

Other Intangibles. REMA recognizes specifically identifiable intangible assets, including emission allowances, when specific rights and contracts are acquired. REMA has no intangible assets with indefinite lives recorded as of December 31, 2007 and 2006.

(i) Income Taxes.

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

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

(j) Cash and Cash Equivalents.

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

(k) Restricted Cash.

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

(l) Inventory.

REMA values fuel inventories at the lower of average cost or market. REMA removes these inventories as they are used in the production of electricity. REMA values materials and supplies at average cost. REMA removes these inventories when they are used for repairs, maintenance or capital projects.

	December 31,	
	2007	2006
(in millions)		
Materials and supplies, including spare parts	\$ 48	\$ 47
Coal	15	17
Heating oil	18	17
Total inventory	<u>\$ 81</u>	<u>\$ 81</u>

(m) Environmental Costs.

REMA expenses environmental expenditures related to existing conditions that do not have future economic benefit. REMA capitalizes environmental expenditures for which there is a future economic benefit. REMA records liabilities for expected future costs, on an undiscounted basis, related to environmental assessments and/or remediation when they are probable and can be reasonably estimated. See note 10.

(n) Asset Retirement Obligations.

REMA's asset retirement obligations relate to future costs primarily associated with ash disposal site closures. REMA's asset retirement obligations were \$7 million as of December 31, 2007 and 2006. As of December 31, 2007 and 2006, REMA has \$14 million and \$12 million, respectively, (classified in other long-term assets) on deposit with the state of Pennsylvania to guarantee its obligation related to future closures of ash disposal sites. See note 10.

During 2005, REMA adopted an accounting interpretation relating to asset retirement obligations. This interpretation clarifies that an asset retirement obligation is unconditional even though uncertainty exists about the timing and/or method of settlement and requires that a liability be recognized if it can be reasonably estimated. Based on this, REMA (a) recorded a cumulative effect of an accounting change, net of tax, of \$225,000, (b) increased other long-term liabilities by \$447,000, (c) increased property, plant and equipment by \$77,000 and (d) decreased deferred income tax liabilities by \$145,000.

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

REMA recognizes repair and maintenance costs as incurred.

(p) Deferred Lease Costs.

REMA incurred costs in connection with its sale-leaseback transactions in 2000 (see note 9(a)). These costs are deferred and amortized, using the straight-line method, over the life of the individual sale-leaseback transactions. REMA amortized \$1 million to facilities lease expense during 2007, 2006 and 2005. As of December 31, 2007 and 2006, REMA had \$18 million and \$19 million, respectively, of net deferred lease costs classified in other long-term assets in its consolidated balance sheets.

(q) New Accounting Pronouncement Not Yet Adopted — Fair Value.

The FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS No. 157 is to be applied prospectively, except for aspects that do not apply to REMA. REMA adopted SFAS No. 157 on January 1, 2008. In connection with the adoption, (a) no cumulative effect of an account change will be recognized and (b) REMA expects to decrease its derivative liabilities and increase its income from continuing operations before income taxes relating to discounting these

liabilities using its own credit ratings. For non-financial assets and liabilities, the adoption of SFAS No. 157 has been deferred until January 1, 2009.

(3) Related Party Transactions

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

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in millions)		
Allocated or charged by Reliant Energy.....	\$ 96	\$ 86	\$ 86

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in millions)		
Sales to Reliant Energy under various commodity agreements ⁽¹⁾	\$ 697	\$ 540	\$ 587
Purchase from Reliant Energy under various commodity agreements ⁽²⁾	8	13	18
Fees charged by Reliant Energy for these services and included in operation and maintenance – affiliates	5	5	5
Fees charged by Reliant Energy for these services and included in cost of sales – affiliates	2	2	2
Sales of emission allowances to Reliant Energy ⁽³⁾	4	73	100
Gains on emission allowances sales to Reliant Energy ⁽⁴⁾	1	70	92

(1) Recorded in revenues – affiliates.

(2) Recorded in cost of sales – affiliates.

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

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

Subordinated Long-term Note Payable to Affiliate. REMA has a note payable to Reliant Energy. The note is due January 1, 2029 and accrues interest at a fixed rate of 9.4% per year. As of December 31, 2007 and 2006, REMA classified the related accrued interest as a current liability since REMA intends to pay the entire amount within the next 12 months from the respective dates. As of December 31, 2007 and 2006, REMA had \$619 million outstanding under the note. Payments under this indebtedness are subordinated to certain obligations, including the lease obligations, pursuant to the lease documents.

Working Capital Note. REMA has a revolving note payable to Reliant Energy under which REMA may borrow, and Reliant Energy is committed to lend, up to \$30 million for working capital needs. Borrowings under the note will be unsecured and will rank equal in priority with REMA's lease obligations. REMA may replace this note with a working capital facility from an unaffiliated lender if then permitted under Reliant Energy's debt agreements. As of December 31, 2007 and 2006, there were no borrowings outstanding under the note.

Subordinated Working Capital Facility. REMA has an irrevocably committed subordinated working capital facility with Reliant Energy. REMA may borrow under this facility to pay operating expenditures, senior indebtedness and rent, but excluding capital expenditures and subordinated obligations. In addition, Reliant Energy must make advances to REMA and REMA must obtain such advances under such facility up to the maximum available commitment under such facility from time to time if REMA's pro forma fixed charge coverage ratio does not equal or exceed 1.1 to 1.0, measured at the time rent under the leases is due. Subject to the maximum available commitment, drawings will be made in amounts necessary to permit REMA to achieve a pro forma fixed charge coverage ratio of at least 1.1 to 1.0. The amount available under the subordinated working capital facility was \$120 million through January 1, 2007. Thereafter, the available amount decreased by \$24 million on January 2, 2007 and decreases by \$24 million each subsequent year through its expiration in 2011. As of December 31, 2007 and 2006, there were no borrowings outstanding under this facility.

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

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

	2007	2006	2005
	(in millions)		
Non-cash federal income tax contributions from (distributions to) Reliant Energy, Inc., net.....	\$ -	\$ 33	\$ 18

(4) Intangible Assets

(a) Goodwill.

As of December 31, 2007 and 2006, REMA had no goodwill that is deductible for United States income tax purposes in future periods.

(b) Other Intangibles.

	Remaining Weighted Average Amortization Period (Years)	December 31,			
		2007		2006	
		Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
(in millions)					
SO ₂ emission allowances ⁽¹⁾⁽²⁾	-(1)	\$ 252	\$ (187)	\$ 204	\$ (138)
NO _x emission allowances ⁽¹⁾⁽³⁾	-(1)	90	(56)	89	(49)
Total.....		\$ 342	\$ (243)	\$ 293	\$ (187)

(1) SO₂ is sulfur dioxide and NO_x is nitrogen oxides. Amortized to amortization expense on a units-of-production basis. As of December 31, 2007, REMA has recorded (a) SO₂ emission allowances through the 2030 vintage year (most of which relate to 2011 and beyond) and (b) NO_x emission allowances through the 2030 vintage year (most of which relate to 2009 and beyond).

(2) During 2007, 2006 and 2005, we purchased \$48 million, \$29 million and \$35 million, respectively, of SO₂ emission allowances from affiliates.

(3) During 2007, 2006 and 2005, we purchased \$3 million, \$2 million and \$0, respectively, of NO_x emission allowances from affiliates.

Amortization expense consists of:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in millions)		
Emission allowances	\$ 56	\$ 39	\$ 51
Total	<u>\$ 56</u>	<u>\$ 39</u>	<u>\$ 51</u>

Estimated amortization expense based on REMA's intangibles as of December 31, 2007 for the next five years is (in millions):

2008	\$	—	(1)
2009		2	(1)
2010		4	(1)
2011		5	(1)
2012		5	(1)

(1) These amounts do not include estimated amortization expense of emission allowances, which have not been purchased as of December 31, 2007.

(5) Derivatives and Hedging Activities

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

During 2007, 2006 and 2005, there was \$2 million gain, an insignificant amount and \$1 million gain, respectively, of hedge ineffectiveness recognized from derivatives that were designated and qualified as cash flow hedges. In addition, no component of the derivatives' gain or loss was excluded from the assessment of effectiveness for these periods. If it becomes probable that an anticipated transaction will not occur, REMA realizes in net income (loss) the deferred gains and losses recognized in accumulated other comprehensive loss. During 2007, 2006 and 2005, there were no amounts recognized in the results of operations as a result of the discontinuance of cash flow hedges because it was probable that the forecasted transaction would not occur.

As of December 31, 2006, the maximum length of time REMA was hedging its exposure to the variability in future cash flows that may result from changes in commodity prices was six years. During the first quarter of 2007, REMA de-designated its remaining cash flow hedges; therefore, REMA has no outstanding cash flow hedges as of December 31, 2007.

Amounts included in accumulated other comprehensive loss:

	<u>December 31, 2007</u>	
	<u>At the End of the Period</u>	<u>Expected to be Reclassified into Results of Operations in Next 12 Months⁽¹⁾</u>
	(in millions)	
Designated cash flow hedges	\$ —	\$ —
De-designated cash flow hedges	(65)	(17)
	<u>\$ (65)</u>	<u>\$ (17)</u>

(6) Debt

REMA is obligated to provide credit support for its lease obligations (see note 9(a)) in the form of letters of credit and/or cash equal to an amount representing the greater of (a) the next six months' scheduled rental payments

under the related lease or (b) 50% of the scheduled rental payments due in the next 12 months under the related lease. Previously, REMA had term loans that were used to partially fulfill REMA's requirement to provide credit support for its obligations under these leases. During 2005, the term loans were paid in full and replacement credit support was provided in the form of letters of credit issued under Reliant Energy's credit facilities. The term loans bore interest at LIBOR plus 3%. The term loans were non-recourse to Reliant Energy. As of December 31, 2007 and 2006, the amount of credit support was \$33 million and \$32 million, respectively.

See note 3 for debt transactions with affiliates.

(7) Benefit Plans

(a) Pension and Postretirement Benefits.

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

Effective December 31, 2006, REMA adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This statement requires recognition of the funded status of plans, measured as of year end. REMA already uses the required measurement date. The adoption did not have a material effect on any individual line item of REMA's consolidated balance sheet as of December 31, 2006. As of December 31, 2007, \$0.1 million and \$0.4 million of net actuarial loss and net prior service costs, respectively, in accumulated other comprehensive loss are expected to be recognized in net periodic benefit cost during the next 12 months.

The benefit obligations and funded status are:

	<u>Pension</u>		<u>Postretirement Benefits</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(in millions)			
Change in Benefit Obligation				
Beginning of year	\$ 25	\$ 27	\$ 32	\$ 39
Transfer to affiliate	-	(5)	-	(8)
Service cost	3	3	1	1
Interest cost	1	1	2	2
Benefits paid	(1)	-	-	-
Actuarial gain	(2)	(1)	(3)	(2)
End of year	<u>\$ 26</u>	<u>\$ 25</u>	<u>\$ 32</u>	<u>\$ 32</u>
Change in Plan Assets				
Beginning of year	\$ 17	\$ 18	\$ -	\$ -
Transfer to affiliate	-	(3)	-	-
Employer contributions	3	1	-	-
Actual investment return	-	1	-	-
End of year	<u>\$ 20</u>	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$ (6)</u>	<u>\$ (8)</u>	<u>\$ (32)</u>	<u>\$ (32)</u>

Amounts recognized in the consolidated balance sheets are:

	<u>Pension</u>		<u>Postretirement Benefits</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(in millions)			
Current liabilities	\$ -	\$ -	\$ (1)	\$ -
Noncurrent liabilities	(6)	(8)	(31)	(32)
Net amount recognized	<u>\$ (6)</u>	<u>\$ (8)</u>	<u>\$ (32)</u>	<u>\$ (32)</u>

The accumulated benefit obligation for the pension plan was \$23 million and \$22 million as of December 31, 2007 and 2006, respectively. The pension plan has an accumulated benefit obligation in excess of plan assets.

Net benefit costs are:

	Pension			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
	(in millions)					
Service cost	\$ 3	\$ 3	\$ 4	\$ 1	\$ 1	\$ 2
Interest cost	1	1	1	1	2	3
Expected return on plan assets.....	(1)	(1)	(1)	—	—	—
Net amortization	—	—	—	1	1	2
Net benefit cost.....	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 7</u>

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

	Pension		Postretirement Benefits	
	December 31,		December 31,	
	2007	2006	2007	2006
Discount rate.....	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	3.0%	3.0%	N/A	N/A

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

	Pension			Postretirement Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate.....	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	3.0%	3.0%	3.0%	N/A	N/A	N/A
Expected long-term rate of return on assets	7.5%	7.5%	7.5%	N/A	N/A	N/A

As of December 31, 2007 and 2006, REMA developed its expected long-term rate of return on pension plan assets based on third party models. These models consider expected inflation, current dividend yields, expected corporate earnings growth and risk premiums based on the expected volatility of each asset category. REMA weights the expected long-term rates of return for each asset category to determine its overall expected long-term rate of return on pension plan assets. In addition, REMA reviews peer data and historical returns.

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

	2007	2006	2005
Health care cost trend rate assumed for next year	8.3%	9.0%	9.0%
Rate to which the cost trend rate is assumed to gradually decline (ultimate trend rate).....	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate.....	2015	2015	2011

Assumed health care cost trend rates can have a significant effect on the amounts reported for REMA's health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2007:

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

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

	Percentage of Plan Assets as of December 31,		Target Allocation
	2007	2006	2008
Domestic equity securities.....	49%	50%	50%
International equity securities.....	10	11	10
Global equity securities	10	11	10
Debt securities	31	28	30
Total.....	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

Asset Class	Index	Weight
Domestic equity securities.....	Wilshire 5000 Index	50%
International equity securities.....	MSCI All Country World Ex-U.S. Index	10
Global equity securities	MSCI All Country World Index	10
Debt securities	Lehman Brothers Aggregate Bond Index	30
		<u>100%</u>

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

Cash Obligations. REMA expects pension cash contributions to approximate \$1 million during 2008. Expected benefit payments for the next ten years, which reflect future service as appropriate, are:

	Pension	Postretirement Benefits
	(in millions)	
2008.....	\$ 1	\$ 1
2009.....	1	1
2010.....	1	1
2011.....	1	2
2012.....	1	2
2013-2017.....	10	15

(b) Savings Plan.

REMA's employees participate in Reliant Energy's employee savings plans under Sections 401(a) and 401(k) of the Internal Revenue Code. REMA's savings plan benefit expense, including matching and discretionary contributions, was \$3 million, \$2 million and \$2 million during 2007, 2006 and 2005, respectively.

(c) *Other Employee Matters.*

As of December 31, 2007, approximately 73% of REMA's employees are subject to collective bargaining arrangements. REMA's collective bargaining arrangements expire at various intervals beginning in 2010.

(8) **Income Taxes**

(a) *Summary.*

REMA's income tax expense (benefit) is:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(in millions)	
Current:			
Federal	\$ -	\$ -	\$ 3
State	1	4	9
Total current	<u>1</u>	<u>4</u>	<u>12</u>
Deferred:			
Federal	1	7	6
State	3	(21)	(3)
Total deferred	<u>4</u>	<u>(14)</u>	<u>3</u>
Income tax expense (benefit).....	<u>\$ 5</u>	<u>\$ (10)</u>	<u>\$ 15</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal statutory rate	35%	(35)%	35%
Additions (reductions) resulting from:			
State income taxes, net of federal income taxes	29	(555) ⁽¹⁾	3
Federal valuation allowance	-	-	(25)
Other, net	(1)	(69)	(1)
Effective rate	<u>63%</u>	<u>(659)%</u>	<u>12%</u>

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

	December 31,	
	2007	2006
(in millions)		
Deferred tax assets:		
Current:		
Derivative liabilities, net.....	\$ 10	\$ 9
Employee benefits	—	1
Total current deferred tax assets	10	10
Non-current:		
Employee benefits	19	16
Net operating loss carryforwards.....	59	84
Environmental reserves	6	3
Derivative liabilities, net.....	50	49
Other	18	11
Total non-current deferred tax assets.....	152	163
Total deferred tax assets	\$ 162	\$ 173
Deferred tax liabilities:		
Non-current:		
Depreciation and amortization.....	\$ 106	\$ 99
Total non-current deferred tax liabilities	106	99
Total deferred tax liabilities.....	\$ 106	\$ 99
Accumulated deferred income taxes, net.....	\$ 56	\$ 74

(b) Tax Attribute Carryovers.

	December 31, 2007	Statutory Carryforward Period	Expiration Year(s)
	(in millions)	(in years)	
Net Operating Loss Carryforwards:			
Federal.....	\$ 128	20	2026 through 2027
State.....	257	5 to 20	2011 through 2027

(c) Valuation Allowances.

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

REMA's valuation allowances for deferred tax assets are:

	Federal	State
	(in millions)	
As of January 1, 2005.....	\$ 30	\$ 5
Changes in valuation allowance	(30)	(2)
As of December 31, 2005.....	—	3
Changes in valuation allowance	—	(3)
As of December 31, 2006 and 2007	\$ —	\$ —

(d) Adoption of FIN 48 and Tax Uncertainties.

Effective January 1, 2007, REMA adopted Financial Accounting Standards and Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48). This interpretation addresses whether (and when) tax benefits claimed in Reliant Energy's federal and REMA's state tax returns should be recorded in the financial statements. Pursuant to FIN 48, REMA may only recognize the tax benefit for financial reporting purposes from an uncertain tax position when it is more-likely-than-not that, based on the technical merits, the position will be

sustained by taxing authorities or courts. The recognized tax benefits are measured as the largest benefit having a greater than fifty percent likelihood of being realized upon settlement with a taxing authority. FIN 48 also provides guidance for derecognition, classification, interest and penalties, disclosures, transition rules and related matters. REMA classifies accrued interest and penalties related to uncertain income tax positions in income tax expense/benefit. Adoption of FIN 48 had no impact on REMA's consolidated financial statements.

As of January 1, 2007 and December 31, 2007, REMA had no amounts accrued for unrecognized tax benefits, interest or penalties. During 2007, 2006 and 2005, REMA recognized \$0 of income tax expense (benefit) due to changes in interest and penalties for federal and state income taxes.

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

	<u>Subject to Examination</u>	<u>Currently Under Audit</u>
Federal.....	1997 to 2007	1997 to 2005
New Jersey.....	2004 to 2007	None
Pennsylvania.....	2004 to 2007	None

REMA, through Reliant Energy, expects to continue discussions with taxing authorities regarding tax positions related to the following, and believe it is reasonably possible some of these matters could be resolved during 2008; however, it cannot estimate the range of changes that might occur:

- the timing of tax deductions could be changed as a result of negotiations with respect to depreciation, emission allowances and certain employee benefits.

(9) Commitments

(a) Lease Commitments.

REMA entered into sale-leaseback transactions, under operating leases that are non-recourse to Reliant Energy. REMA leases 16.45% and 16.67% interests in the Conemaugh and Keystone facilities, respectively. The leases expire in 2034 and REMA expects to make payments through 2029. REMA also leases a 100% interest in the Shawville facility. This lease expires in 2026 and REMA expects to make payments through that date. At the expiration of these leases, there are several renewal options related to fair market value. REMA LLC's subsidiaries guarantee the lease obligations and REMA LLC has pledged the equity interests in these subsidiaries as collateral. Reliant Energy also provides credit support for these lease obligations in the form of letters of credit. See note 6. During 2007, 2006 and 2005, REMA made lease payments under these leases of \$65 million, \$64 million and \$75 million, respectively. As of December 31, 2007 and 2006, REMA has recorded a prepaid lease of \$59 million in current assets and \$270 million and \$264 million, respectively, in long-term assets. REMA operates the Conemaugh and Keystone facilities under agreements that could terminate annually with one year's notice and received fees of \$10 million, \$9 million and \$9 million during 2007, 2006 and 2005, respectively. These fees, which are recorded in operation and maintenance expense, are primarily to cover REMA's administrative support costs of providing these services.

REMA's ability to pay dividends or pay subordinated obligations is restricted by conditions within the lease documents. As of December 31, 2007, REMA was not limited by these restrictions.

Cash Obligations Under Operating Leases. REMA's projected cash obligations under non-cancelable long-term operating leases as of December 31, 2007 are (in thousands):

2008.....	\$ 62
2009.....	63
2010.....	52
2011.....	63
2012.....	56
2013 and thereafter.....	763
Total.....	<u>\$ 1,059</u>

Operating Lease Expense. Operating lease expense, including the amortization of deferred lease costs, was \$60 million during 2007, 2006 and 2005.

(b) Guarantees and Indemnifications.

Equity Pledged as Collateral for Reliant Energy. REMA LLC's equity is pledged as collateral under certain of Reliant Energy's credit and debt agreements, which have an outstanding balance of \$1.2 billion as of December 31, 2007.

Other. REMA enters into contracts that include indemnification and guarantee provisions. In general, REMA enters into contracts with indemnities for matters such as breaches of representations and warranties and covenants contained in the contract and/or against certain specified liabilities. Examples of these contracts include asset sales agreements, service agreements and procurement agreements.

REMA is unable to estimate its maximum potential exposure under these agreements until an event triggering payment occurs. REMA does not expect to make any material payments under these agreements.

(c) Other Commitments.

Property, Plant and Equipment Commitments. As of December 31, 2007, REMA has contractual commitments to spend approximately \$88 million on plant and equipment relating primarily to SO₂ emissions reductions.

Fuel Supply Commitments. REMA is a party to fuel supply contracts of various quantities and durations that are not classified as derivative assets and liabilities. These contracts are not included in the consolidated balance sheet as of December 31, 2007. Minimum purchase commitment obligations under these agreements are as follows as of December 31, 2007 (in millions):

2008.....	\$ 88
2009.....	68
2010.....	45
2011.....	30
2012.....	31
2013 and thereafter.....	187
Total.....	<u>\$ 449</u> ⁽¹⁾

(1) Of this amount, \$127 million relates to contracts with variable pricing components for which the prices were determined based on assumptions on escalations per the contractual terms.

As of December 31, 2007, the maximum remaining term under any individual fuel supply contract is 13 years.

(10) Contingencies

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

New Source Review Matters. The United States Environmental Protection Agency (EPA) and various states are investigating compliance of coal-fueled electric generating stations with the pre-construction permitting requirements of the Clean Air Act known as “New Source Review.” In 2000 and 2001, REMA responded to the EPA’s information requests related to five of its stations, and in December 2007, REMA received supplemental requests for two of those stations. The EPA has agreed to share information relating to its investigations with state environmental agencies.

In December 2007, the New Jersey Department of Environmental Protection (NJDEP) filed suit against REMA in the United States District Court in Pennsylvania, alleging that New Source Review violations occurred at one of REMA’s power plants located in Pennsylvania. The suit seeks installation of “best available” control technologies for each pollutant, to enjoin REMA from operating the plant if it is not in compliance with the Clean Air Act and civil penalties. The allegations are based on projects occurring prior to REMA’s ownership of the facility and the suit names three past owners of the plant as defendants. REMA believes it is indemnified by or has the right to seek indemnification from the prior owners for losses and expenses that it may incur.

REMA is unable to predict the ultimate outcome of the EPA’s investigation or the NJDEP’s suit, but a final finding that REMA violated the New Source Review requirements could result in significant capital expenditures associated with the implementation of emissions reductions on an accelerated basis and possible penalties.

Ash Disposal Site Closures. REMA is responsible for environmental costs related to the future closures of five ash disposal sites. REMA recorded the estimated discounted costs associated with these environmental liabilities as part of its asset retirement obligations. See note 2(n).

Remediation Obligations. REMA is responsible for environmental costs related to site contamination investigations and remediation requirements at four power plants in New Jersey. REMA recorded the estimated liability for the remediation costs of \$8 million and \$7 million as of December 31, 2007 and 2006, respectively.

Conemaugh Actions. In April 2007, the PADEP filed suit against Reliant Energy in the Court of Common Pleas of Indiana County, Pennsylvania. In addition, in April 2007, PennEnvironment and the Sierra Club filed a citizens’ suit against Reliant Energy in the United States District Court, Western District of Pennsylvania. Each suit alleges that the Conemaugh plant is in violation of its water discharge permit and related state and federal laws and seeks civil penalties, remediation and/or to enjoin violations. The Conemaugh plant is jointly leased by REMA and seven other companies and is governed by a consent order agreement with the PADEP. Reliant Energy is confident that the Conemaugh plant has operated and will continue to operate in material compliance with the consent order agreement, its water discharge permit and related state and federal laws. However, if PADEP or PennEnvironment and the Sierra Club are successful, REMA could incur significant capital expenditures associated with the implementation of discharge reductions on an accelerated basis and possible penalties.

(11) Estimated Fair Value of Financial Instruments

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

(12) Sales of Assets and Emission Allowances

REMA included the following in its results of operations through the date of sale.

Emission Allowances. REMA sold emission allowances during 2007, 2006 and 2005 for gains of \$2 million, \$71 million and \$97 million, respectively.

Hydropower Plants. Two hydropower plants sold for \$42 million in April 2005 for a gain of \$12 million.