

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES

**As of September 30, 2008 and December 31, 2007 and
For the Three and Nine Months Ended September 30, 2008 and 2007**

- Forward-Looking Information
- Financial Statements
- Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING INFORMATION

Projections, estimates or assumptions about revenues, costs, income, cash flow and other future events are called “forward-looking statements.” In some cases, you can identify forward-looking statements by words like “anticipate,” “estimate,” “believe,” “intend,” “may,” “expect” or similar words. Forward-looking statements are not guarantees of future performance. Actual results may differ from forward-looking statements. Each forward-looking statement speaks only as of its date and we are under no obligation to update these statements.

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(thousands of dollars)			
Revenues:				
Revenues.....	\$ 22,324	\$ 3,240	\$ 30,191	\$ 18,961
Revenues – affiliates.....	136,885	159,842	469,249	404,941
Total.....	<u>159,209</u>	<u>163,082</u>	<u>499,440</u>	<u>423,902</u>
Expenses:				
Cost of sales.....	54,895	63,602	190,022	166,717
Cost of sales – affiliates.....	668	(218)	(3,847)	(238)
Operation and maintenance.....	31,043	32,819	93,668	125,173
Operation and maintenance – affiliates.....	8,209	9,417	23,878	27,562
Taxes other than income taxes.....	2,692	2,481	8,040	8,835
General and administrative – primarily affiliates.....	5,071	5,982	16,327	21,521
(Gains) losses on sales of assets and emission allowances, net – primarily affiliates.....	(101)	769	(617)	(7,480)
Depreciation.....	19,556	19,599	59,882	68,421
Amortization.....	8,003	24,417	20,012	34,109
Total operating expenses.....	<u>130,036</u>	<u>158,868</u>	<u>407,365</u>	<u>444,620</u>
Operating Income (Loss).....	<u>29,173</u>	<u>4,214</u>	<u>92,075</u>	<u>(20,718)</u>
Other Income (Expense):				
Other, net.....	4,488	–	4,489	–
Interest expense.....	(5,517)	(8,649)	(18,797)	(26,224)
Interest expense – affiliates.....	(1,288)	(2,318)	(4,223)	(6,973)
Interest income – primarily affiliates.....	1,354	1,897	4,150	6,964
Total other expense.....	<u>(963)</u>	<u>(9,070)</u>	<u>(14,381)</u>	<u>(26,233)</u>
Income (Loss) from Continuing Operations				
Before Income Taxes	28,210	(4,856)	77,694	(46,951)
Income tax expense (benefit).....	11,069	(2,575)	30,530	(19,269)
Income (Loss) from Continuing Operations.....	<u>17,141</u>	<u>(2,281)</u>	<u>47,164</u>	<u>(27,682)</u>
Income (loss) from discontinued operations.....	–	2,479	(1,480)	(1,062)
Net Income (Loss).....	<u>\$ 17,141</u>	<u>\$ 198</u>	<u>\$ 45,684</u>	<u>\$ (28,744)</u>

See Notes to the Unaudited Consolidated Interim Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
	(Unaudited)	
	(thousands of dollars, except share and per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 79	\$ 259
Accounts receivable, principally customer, net of allowance of \$0	11,819	102
Receivables from affiliates, net	10,404	19,968
State income taxes receivable	30,286	45,763
Inventory	84,421	57,233
Collateral posted under agreement with Reliant Energy, Inc.	-	2,000
Prepayments and other current assets	9,400	8,556
Current assets of discontinued operations	-	2,132
Total current assets	146,409	136,013
Property, plant and equipment, gross	2,162,923	2,031,704
Accumulated depreciation	(470,061)	(412,053)
Property, Plant and Equipment, net	1,692,862	1,619,651
Other Assets:		
Goodwill, net	173,570	173,570
Other intangibles, net	164,954	165,509
Long-term note receivable from Reliant Energy, Inc.	67,200	67,200
Long-term collateral posted under agreement with Reliant Energy, Inc.	14,392	14,392
Other	3,210	9,383
Total other assets	423,326	430,054
Total Assets	\$ 2,262,597	\$ 2,185,718
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 12,207	\$ 11,409
Accounts payable, principally trade	48,413	36,278
Accrued interest payable	19,994	7,999
Other taxes payable	10,641	12,496
Other	13,206	17,530
Current liabilities of discontinued operations	2,952	-
Total current liabilities	107,413	85,712
Other Liabilities:		
Accumulated deferred income taxes	167,485	165,709
Benefit obligations	48,136	46,726
Taxes payable to Reliant Energy, Inc. and related accrued interest	92,227	66,294
Other	10,258	10,602
Long-term liabilities of discontinued operations	3,542	3,542
Total other liabilities	321,648	292,873
Revolving Credit Facility with Reliant Energy, Inc.	26,839	37,299
Long-term Debt	407,747	416,934
Commitments and Contingencies		
Stockholder's Equity:		
Common stock; par value \$1.00 per share (1,000 shares authorized, issued and outstanding)	1	1
Additional paid-in capital	2,211,138	2,211,138
Accumulated deficit	(805,923)	(851,607)
Accumulated other comprehensive loss	(6,266)	(6,632)
Total stockholder's equity	1,398,950	1,352,900
Total Liabilities and Stockholder's Equity	\$ 2,262,597	\$ 2,185,718

See Notes to the Unaudited Consolidated Interim Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
	(thousands of dollars)	
Cash Flows from Operating Activities:		
Net income (loss).....	\$ 45,684	\$ (28,744)
Loss from discontinued operations.....	1,480	1,062
Net income (loss) from continuing operations.....	47,164	(27,682)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.....	79,894	102,530
Deferred income taxes.....	6,357	(33,707)
Amortization of revaluation of acquired debt.....	(8,387)	(7,767)
Gains on sales of assets and emission allowances, net – primarily affiliates.....	(617)	(7,480)
Other, net.....	(1,935)	(461)
Changes in other assets and liabilities:		
Accounts receivable, net.....	(11,717)	1,536
Inventory.....	(27,188)	(98)
Other current assets.....	(654)	(2,190)
Other assets.....	380	(120)
Accounts payable.....	3,424	(874)
Payable to/receivable from affiliates, net.....	28,132	2,268
Collateral returned (posted) under agreement with Reliant Energy, Inc.....	2,000	(1,764)
Income taxes payable/receivable.....	17,882	(15)
Accrued interest.....	11,995	11,998
Long-term taxes payable to Reliant Energy, Inc. and related accrued interest.....	26,951	18,132
Other current liabilities.....	(2,999)	(4,063)
Other liabilities.....	2,174	(2,769)
Net cash provided by continuing operations from operating activities.....	172,856	47,474
Net cash used in discontinued operations from operating activities.....	(56)	(3,754)
Net cash provided by operating activities.....	172,800	43,720
Cash Flows from Investing Activities:		
Capital expenditures.....	(121,643)	(74,618)
Proceeds from sales of emission allowances and sales of assets.....	515	883
Proceeds from sales of emission allowances – affiliates.....	164	12,678
Purchases of emission allowances – affiliates.....	(41,556)	–
Net cash used in continuing operations from investing activities.....	(162,520)	(61,057)
Net cash provided by discontinued operations from investing activities.....	–	520
Net cash used in investing activities.....	(162,520)	(60,537)
Cash Flows from Financing Activities:		
Repayments from Reliant Energy, Inc.....	–	25,000
Changes in revolving credit facility with Reliant Energy, Inc., net.....	(10,460)	(8,178)
Net cash provided by (used in) financing activities.....	(10,460)	16,822
Net Change in Cash and Cash Equivalents.....	(180)	5
Cash and Cash Equivalents at Beginning of Period.....	259	81
Cash and Cash Equivalents at End of Period.....	\$ 79	\$ 86
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest paid (net of amounts capitalized) to third parties for continuing operations.....	\$ 15,183	\$ 21,981
Income taxes paid (net of income tax refunds) for continuing operations.....	(17,883)	15

See Notes to the Unaudited Consolidated Interim Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

(a) Background.

“Orion Power” refers to Orion Power Holdings, Inc. (Orion Power Holdings) and its consolidated subsidiaries. Orion Power Holdings is a wholly-owned subsidiary of Reliant Energy, Inc. “Reliant Energy” refers to Reliant Energy, Inc. and its consolidated subsidiaries. These interim financial statements and notes (interim financial statements) are unaudited, omit certain disclosures and should be read in conjunction with the audited consolidated financial statements and notes for the three years ended December 31, 2007 (2007 annual consolidated financial statements).

(b) Basis of Presentation.

Estimates. 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
- the disclosure of contingent assets and liabilities at the date of the financial statements.

Adjustments and Reclassifications. The interim financial statements reflect all normal recurring adjustments necessary, in management’s opinion, to present fairly Orion Power’s financial position and results of operations for the reported periods. Amounts reported for interim periods, however, may not be indicative of a full year period due to seasonal fluctuations in demand for electricity and energy services, changes in commodity prices, timing of maintenance and other expenditures, dispositions, changes in interest expense and other factors.

(2) Related Party Transactions

These financial statements include the impact of significant transactions between Orion Power 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 Orion Power and allocations of costs to Orion Power for support services.

Support and Technical Services. Reliant Energy provides commercial support, technical services and other corporate services to Orion Power. Reliant Energy allocates certain support services costs to Orion Power based on Orion Power’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 Orion Power 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 Orion Power been an unaffiliated entity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Allocated or charged by Reliant Energy.....	\$ 13	\$ 15	\$ 40	\$ 49

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(in millions)			
Sales to Reliant Energy under various commodity agreements ⁽¹⁾	\$ 137	\$ 160	\$ 469	\$ 405
Purchases from Reliant Energy under various commodity agreements ⁽²⁾	1	–	2	3
Gains on coal sales to Reliant Energy	–	–	6	3
Sales of emission allowances to Reliant Energy ⁽⁴⁾	–	2	–	13
Gains on emission allowances sales to Reliant Energy ⁽⁵⁾	–	(1)	–	6

(1) Recorded in revenues – affiliates.

(2) Recorded in cost of sales – affiliates.

(3) Recorded in cost of sales – affiliates.

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

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

Debt Obligations from/to Reliant Energy. In December 2004, Orion Power Midwest, L.P. (Orion MidWest) entered into a \$75 million revolving credit facility, among other notes that have terminated, with Reliant Energy. This \$75 million Orion MidWest revolving credit facility matures in December 2008; however, Reliant Energy plans to extend the maturity each December for 12 months from that date. Orion Power has incurred \$0 and \$1 million in interest expense related to this revolving credit facility during the three months ended September 30, 2008 and 2007, respectively, and has incurred \$1 million and \$2 million in interest expense during the nine months ended September 30, 2008 and 2007, respectively.

In March 2006, Orion Power made a term loan to Reliant Energy for \$92 million, which matures in 2010. The note bore interest at ten percent through September 30, 2007 and interest is payable monthly. Effective October 1, 2007, the interest rate was changed to 7.5 percent. During the third quarter of 2007, Reliant Energy paid down \$25 million on this loan. Orion Power has earned interest income related to this term loan of \$2 million and \$2 million during the three months ended September 30, 2008 and 2007, respectively, and \$4 million and \$6 million during the nine months ended September 30, 2008 and 2007, respectively.

Secured Revolving Letter of Credit Facility Agreement with Reliant Energy. Reliant Energy posts letters of credit on behalf of Orion Power. As of September 30, 2008 and December 31, 2007, Reliant Energy posted letters of credit totaling \$14 million and \$16 million, respectively, on behalf of Orion Power. During September 2006, Reliant Energy and Orion Power entered into a Secured Revolving Letter of Credit Facility Agreement whereby Orion Power will provide cash to Reliant Energy as collateral for letters of credit when issued up to a maximum of \$20 million. The agreement expires on April 30, 2010. As letters of credit expire, the cash collateral will be returned to Orion Power. Orion Power will reimburse Reliant Energy for the costs of the letters of credit and will earn interest income on the collateral posted. As of September 30, 2008 and December 31, 2007, Orion Power has provided cash collateral of \$14 million and \$16 million, respectively, to Reliant Energy. During the three and nine months ended September 30, 2008 and 2007, the letters of credit costs, recorded in interest expense, and the related interest income were insignificant.

Income Taxes. As of September 30, 2008 and December 31, 2007, Orion Power has \$92 million and \$66 million, respectively, recorded as long-term taxes payable to Reliant Energy, Inc., which includes accrued interest payable of \$9 million and \$6 million, respectively. Orion Power has incurred interest expense related to this payable of \$1 million and \$2 million during the three months ended September 30, 2008 and 2007, respectively, and \$3 million and \$5 million during the nine months ended September 30, 2008 and 2007, respectively. For discussion of Orion Power's policy with respect to income taxes and long-term taxes payable to Reliant Energy, Inc., see note 2(j) to the 2007 annual consolidated financial statements.

(3) Comprehensive Income (Loss)

The components of total comprehensive income (loss) are:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	(in millions)			
Net income (loss).....	\$ 17	\$ -	\$ 46	\$ (29)
Other comprehensive income (loss), net of tax:				
Reclassification of net deferred gain from cash flow hedges realized in net income/loss	-	(1)	-	(2)
Comprehensive income (loss).....	<u>\$ 17</u>	<u>\$ (1)</u>	<u>\$ 46</u>	<u>\$ (31)</u>

(4) Goodwill

2008 Annual Goodwill Impairment Assessment. Orion Power completed its annual goodwill impairment assessment effective April 1, 2008. No impairment occurred.

Estimation of Orion Power's Fair Value. Orion Power updated a number of subjective factors and significant assumptions to estimate fair value in its April 2008 test as compared to its April 2007 test, including (a) appropriate weighting of valuation approaches (income approach, market approach and comparable public company approach); (b) projections about future power generation margins; (c) estimates of our future cost structure; (d) environmental assumptions; (e) discount rates for estimated cash flows, which changed from 10.0% to 10.5% primarily due to changes in the required rate on debt capital of peer companies and (f) required level of working capital. See note 4(a) to the 2007 annual consolidated financial statements.

Goodwill Impairment Assessment Update. Given recent changes in the business climate and the credit markets and Reliant Energy's review of strategic alternatives to enhance stockholder value, Orion Power updated the key inputs and assumptions used to estimate its fair value and concluded that no goodwill impairment has occurred as of September 30, 2008. Orion Power uses a combination of an income approach and a market approach to estimate the fair value. Key fair value inputs that Orion Power changed include the weighting of the valuation approaches, projections about future power generation margins and the discount rate, which is based on the cost of capital.

(5) Debt

Orion Power's outstanding debt to third parties is:

	<u>September 30, 2008</u>			<u>December 31, 2007</u>		
	<u>Stated Interest Rate⁽¹⁾</u>	<u>Long-term</u>	<u>Current</u>	<u>Stated Interest Rate⁽¹⁾</u>	<u>Long-term</u>	<u>Current</u>
	(in millions, except interest rates)					
Orion Power Holdings senior notes due 2010 ...	12.00%	\$ 400	\$ -	12.00%	\$ 400	\$ -
Adjustment to fair value of debt ⁽²⁾		8	12		17	11
Total debt		<u>\$ 408</u>	<u>\$ 12</u>		<u>\$ 417</u>	<u>\$ 11</u>

(1) The stated interest rates are as of September 30, 2008 or December 31, 2007.

(2) Included in interest expense is amortization for valuation adjustments for debt of \$2 million and \$1 million during the three months ended September 30, 2008 and 2007, respectively, and \$8 million and \$8 million during the nine months ended September 30, 2008 and 2007, respectively.

See note 2 for discussion of Orion Power's debt obligations to Reliant Energy.

(6) Income Taxes

(a) Tax Rate Reconciliation.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Federal statutory rate	35%	35%	35%	35%
Additions (reductions) resulting from:				
State income taxes, net of federal income taxes	4	6	4	5
Other, net	—	12	—	1
Effective rate	<u>39%</u>	<u>53%</u>	<u>39%</u>	<u>41%</u>

(b) FIN 48 and Income Tax Uncertainties.

Effective January 1, 2007, Orion Power adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48). This interpretation addresses whether (and when) tax benefits claimed in Orion Power's tax returns should be recorded in the financial statements. Pursuant to FIN 48, Orion Power 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 the 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. Orion Power classifies accrued interest and penalties related to uncertain income tax positions in income tax expense/benefit.

(7) Guarantees and Indemnifications

Equity Pledged as Collateral for Reliant Energy. Orion Power Holdings' 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 September 30, 2008.

Interests Pledged as Collateral to Reliant Energy. In connection with Orion Power's debt to Reliant Energy (as discussed in note 2), Orion Power Holdings has pledged its interests in Orion Power Capital, LLC, and its subsidiaries, including Orion Power New York, L.P. and Orion MidWest, to Reliant Energy.

Other. Orion Power enters into contracts that include indemnification and guarantee provisions. In general, Orion Power 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.

Except as otherwise noted, Orion Power is unable to estimate its maximum potential exposure under these agreements until an event triggering payment occurs. Orion Power does not expect to make any material payments under these agreements.

(8) Contingencies

Orion Power 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, Orion Power cannot predict the outcome of the matters described below.

New Source Review Matters. The United States Environmental Protection Agency (EPA) and various states are investigating compliance of coal-fueled electric generating stations with the pre-construction permitting requirements of the Clean Air Act known as "New Source Review." The EPA has agreed to share information relating to its investigations with state environmental agencies.

Ash Disposal Landfill Closures. Orion Power is responsible for environmental costs related to the future closures of two ash disposal landfills owned by Orion MidWest. Orion Power recorded the estimated discounted costs associated with these environmental liabilities as part of its asset retirement obligations. See note 2(o) to the 2007 annual consolidated financial statements.

Sales Tax Contingencies. Some of Orion Power's sales tax computations are subject to challenge under audit. As of September 30, 2008 and December 31, 2007, Orion Power has \$2 million and \$0, respectively, recorded in current liabilities of discontinued operations relating to these contingencies.

Property Tax Contingencies. Orion Power believes it will be subject to additional property tax liabilities related to years 2001 to 2005. As of September 30, 2008 and December 31, 2007, Orion Power has \$4 million recorded in long-term liabilities of discontinued operations relating to these contingencies.

(9) Other Employee Matters

As of September 30, 2008, approximately 74% of Orion Power's employees were subject to bargaining arrangements and 80% of these employees were covered under arrangements that expire on or before September 30, 2009. Orion Power is currently engaged in negotiations to renew agreements with 18% of these employees.

(10) Discontinued Operations

Subsequent to the sale of the New York plants in February 2006, Orion Power continues to have (a) insignificant settlements with the independent system operator and (b) property tax and sales and use tax settlements. These amounts are classified as discontinued operations in the results of operations and consolidated balance sheets, as applicable. See note 8.

(11) Subsequent Event

In October 2008, Orion Power entered into a release and settlement agreement with a coal supplier in connection with a suit previously filed by Orion Power. The agreement provides for a \$20 million payment to Orion Power of which \$10 million was received in October 2008 and \$10 million was received in November 2008.

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

The following should be read in conjunction with our 2007 annual consolidated financial statements.

Consolidated Results of Operations

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Net Income. We reported \$17 million consolidated net income for the three months ended September 30, 2008 compared to \$198,000 consolidated net income for the same period in 2007.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Gross margin ⁽¹⁾	\$ 103	\$ 99	\$ 4
Operation and maintenance (including from affiliates) ..	(39)	(43)	4
Taxes other than income taxes.....	(3)	(3)	–
General and administrative – primarily affiliates	(5)	(5)	–
Gains (losses) on sales of assets and emission allowances, net – primarily affiliates	1	(1)	2
Depreciation and amortization.....	(28)	(43)	15
Other, net.....	5	–	5
Interest expense	(6)	(9)	3
Interest expense – affiliates	(1)	(2)	1
Interest income – primarily affiliates.....	2	2	–
Income tax (expense) benefit.....	(12)	3	(15)
Income (loss) from continuing operations	17	(2)	19
Income from discontinued operations.....	–	2	(2)
Net income.....	<u>\$ 17</u>	<u>\$ –</u>	<u>\$ 17</u>

(1) Gross margin (revenues less cost of sales) excludes depreciation, amortization, labor and other product costs.

Revenues (including from affiliates).

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Third-party revenues.....	\$ 22	\$ 3	\$ 19 ⁽¹⁾
Revenues – affiliates.....	137	160	(23) ⁽²⁾
Revenues	<u>\$ 159</u>	<u>\$ 163</u>	<u>\$ (4)</u>

(1) Increase primarily due to an increase in coal sales.

(2) Merchant sales to PJM Interconnection, LLC through Reliant Energy affiliates decreased primarily due to a decrease in power sales volumes. This decrease was partially offset by (a) higher market prices and (b) higher RPM capacity payments. RPM is the model utilized by PJM Interconnection, LLC to meet load serving entities' forecasted capacity obligations via a forward-looking commitment of capacity resources.

Cost of Sales (including from affiliates).

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Cost of sales.....	\$ 55	\$ 64	\$ (9) ⁽¹⁾
Cost of sales – affiliates.....	1	–	1
Cost of sales	<u>\$ 56</u>	<u>\$ 64</u>	<u>\$ (8)</u>

(1) Decrease primarily due to a decrease in coal volumes, partially offset by higher coal prices.

Gross Margin.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Orion MidWest.....	\$ 103	\$ 99	\$ 4
Gross margin.....	\$ 103	\$ 99	\$ 4

(1) Increase primarily due to (a) increase in gain on operational hedges and (b) higher RPM capacity payments. This increase was partially offset by (a) lower economic generation and (b) lower unit margins (higher fuel costs partially offset by higher power prices).

Operation and Maintenance (including from affiliates).

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Planned outages and maintenance spending.....	\$ 15	\$ 17	\$ (2)
Plant support costs.....	14	16	(2)
Commercial support allocations.....	7	8	(1)
Other, net.....	3	2	1
Operation and maintenance (including from affiliates).....	\$ 39	\$ 43	\$ (4)

Taxes Other than Income Taxes.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Property taxes.....	\$ 3	\$ 3	\$ –
Taxes other than income taxes.....	\$ 3	\$ 3	\$ –

General and Administrative – Primarily Affiliates.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Allocations from Reliant Energy.....	\$ 5	\$ 5	\$ –
General and administrative – primarily affiliates.....	\$ 5	\$ 5	\$ –

Gains (Losses) on Sales of Assets and Emission Allowances, Net — Primarily Affiliates.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Emission allowances.....	\$ 1	\$ (1)	\$ 2
Gains (losses) on sales of assets and emission allowances, net – primarily affiliates.....	\$ 1	\$ (1)	\$ 2

Depreciation and Amortization.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Depreciation on plants	\$ 20	\$ 19	\$ 1
Amortization of emission allowances	8	24	(16)
Depreciation and amortization	<u>\$ 28</u>	<u>\$ 43</u>	<u>\$ (15)</u>

(1) Decrease primarily due to (a) decrease in allowances used and (b) decrease in average cost of SO₂ allowances purchased and used.

Interest Expense (including from affiliates).

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Interest expense	\$ 10	\$ 9	\$ 1
Interest expense – affiliates	1	2	(1)
Capitalized interest	(4)	–	(4)
Interest expense (including from affiliates)	<u>\$ 7</u>	<u>\$ 11</u>	<u>\$ (4)</u>

Interest Income — Primarily Affiliates.

	Three Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Interest income on note receivable from Reliant Energy, Inc.	\$ 2	\$ 2	\$ –
Interest income – primarily affiliates	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ –</u>

Income Tax Expense (Benefit). See note 6 to our interim financial statements.

Loss from Discontinued Operations. See note 10 to our interim financial statements.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Net Income (Loss). We reported \$46 million consolidated net income for the nine months ended September 30, 2008 compared to \$29 million consolidated net loss for the same period in 2007.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Gross margin	\$ 313	\$ 257	\$ 56
Operation and maintenance (including from affiliates) ..	(118)	(153)	35
Taxes other than income taxes	(8)	(9)	1
General and administrative – primarily affiliates	(16)	(21)	5
Gains on sales of assets and emission allowances, net – primarily affiliates	1	7	(6)
Depreciation and amortization	(80)	(102)	22
Other, net	5	–	5
Interest expense	(19)	(26)	7
Interest expense – affiliates	(4)	(7)	3
Interest income – primarily affiliates	4	7	(3)
Income tax (expense) benefit	(31)	19	(50)
Income (loss) from continuing operations	47	(28)	75
Loss from discontinued operations	(1)	(1)	–
Net income (loss)	<u>\$ 46</u>	<u>\$ (29)</u>	<u>\$ 75</u>

Revenues (including from affiliates).

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Third-party revenues.....	\$ 30	\$ 19	\$ 11
Revenues – affiliates.....	469	405	64
Revenues.....	<u>\$ 499</u>	<u>\$ 424</u>	<u>\$ 75</u>

- (1) Increase primarily due to an increase in coal sales partially offset by a decrease from a reliability must-run contract from May 2006 to July 2007.
- (2) Merchant sales to PJM Interconnection, LLC through Reliant Energy affiliates increased due to (a) higher market prices and (b) higher RPM capacity payments. This increase was partially offset by a decrease in power sales volumes.

Cost of Sales (including from affiliates).

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Cost of sales.....	\$ 190	\$ 167	\$ 23
Cost of sales – affiliates.....	(4)	–	(4)
Cost of sales.....	<u>\$ 186</u>	<u>\$ 167</u>	<u>\$ 19</u>

- (1) Increase primarily due to higher coal prices, partially offset by a decrease in coal volumes.

Gross Margin.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Orion MidWest.....	\$ 313	\$ 257	\$ 56
Gross margin.....	<u>\$ 313</u>	<u>\$ 257</u>	<u>\$ 56</u>

- (1) Increase primarily due to (a) gains on operational hedges, (b) higher commercial capacity factor due to lower planned and unplanned outages in 2008 and (c) higher RPM capacity payments. This increase was partially offset by lower economic generation.

Operation and Maintenance (including from affiliates).

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Planned outages and maintenance spending.....	\$ 47	\$ 80	\$ (33)
Plant support costs.....	43	46	(3)
Commercial support allocations.....	20	22	(2)
Other, net.....	8	5	3
Operation and maintenance (including from affiliates).....	<u>\$ 118</u>	<u>\$ 153</u>	<u>\$ (35)</u>

- (1) Decrease primarily due to lower planned outage and maintenance spending at Elrama and Avon Lake in 2008.

Taxes Other than Income Taxes.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Property taxes.....	\$ 7	\$ 7	\$ –
Other, net.....	1	2	(1)
Taxes other than income taxes.....	<u>\$ 8</u>	<u>\$ 9</u>	<u>\$ (1)</u>

General and Administrative – Primarily Affiliates.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Allocations from Reliant Energy	\$ 16	\$ 21	\$ (5) ⁽¹⁾
General and administrative – primarily affiliates.....	\$ 16	\$ 21	\$ (5)

- (1) Decrease primarily due to (a) lower allocated expenses from Reliant Energy due to decreased budgeted expenses for Orion Power (in 2008 compared to 2007) compared to other Reliant Energy entities due primarily to planned outages and (b) lower general and administrative expenses for Reliant Energy as a whole.

Gains on Sales of Assets and Emission Allowances, Net — Primarily Affiliates.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Emission allowances.....	\$ 1	\$ 7	\$ (6)
Gains on sales of assets and emission allowances, net – primarily affiliates.....	\$ 1	\$ 7	\$ (6)

Depreciation and Amortization.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Depreciation on plants	\$ 60	\$ 68	\$ (8) ⁽¹⁾
Amortization of emission allowances.....	20	34	(14) ⁽²⁾
Depreciation and amortization	\$ 80	\$ 102	\$ (22)

- (1) Decrease primarily due to early retirements of plant components when replacement components are installed for upgrades (from \$13 million in 2007 to \$1 million in 2008).
(2) Decrease primarily due to (a) decrease in allowances used and (b) decrease in average cost of SO₂ allowances purchased and used.

Interest Expense (including from affiliates).

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Interest expense	\$ 28	\$ 28	\$ –
Interest expense – affiliates	4	7	(3)
Capitalized interest	(9)	(2)	(7)
Interest expense (including from affiliates)	\$ 23	\$ 33	\$ (10)

Interest Income — Primarily Affiliates.

	Nine Months Ended September 30,		
	2008	2007	Change
	(in millions)		
Interest income on note receivable from Reliant Energy, Inc.....	\$ 4	\$ 6	\$ (2)
Other, net	–	1	(1)
Interest income – primarily affiliates	\$ 4	\$ 7	\$ (3)

Income Tax Expense (Benefit). See note 6 to our interim financial statements.

Loss from Discontinued Operations. See note 10 to our interim financial statements.