

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES

As of March 31, 2009 and December 31, 2008 and For the Three Months Ended March 31, 2009 and 2008

- 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)

	Three Months Ended March 31,	
	2009	2008
	(thousands of dollars)	
Revenues:		
Revenues.....	\$ 869	\$ 3,521
Revenues – affiliates.....	83,334	173,117
Total.....	<u>84,203</u>	<u>176,638</u>
Expenses:		
Cost of sales.....	109,756	73,359
Cost of sales – affiliates.....	559	(5,168)
Operation and maintenance.....	28,583	29,042
Operation and maintenance – affiliates.....	6,303	7,581
Taxes other than income taxes.....	2,869	2,695
General and administrative – primarily affiliates.....	5,393	5,174
Gains on sales of assets and emission allowances, net – primarily affiliates.....	(3,050)	(1)
Depreciation.....	19,548	19,558
Amortization.....	3,552	4,441
Total operating expenses.....	<u>173,513</u>	<u>136,681</u>
Operating Income (Loss).....	<u>(89,310)</u>	<u>39,957</u>
Other Income (Expense):		
Other, net.....	—	1
Interest expense.....	(4,009)	(6,757)
Interest expense – affiliates.....	(888)	(1,597)
Interest income – primarily affiliates.....	796	1,434
Total other expense.....	<u>(4,101)</u>	<u>(6,919)</u>
Income (Loss) from Continuing Operations Before Income Taxes.....	<u>(93,411)</u>	<u>33,038</u>
Income tax expense (benefit).....	(31,637)	13,014
Income (Loss) from Continuing Operations.....	<u>(61,774)</u>	<u>20,024</u>
Income from discontinued operations.....	2,489	—
Net Income (Loss).....	<u>\$ (59,285)</u>	<u>\$ 20,024</u>

See Notes to the Unaudited Consolidated Interim Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2009	December 31, 2008
	(unaudited)	
	(thousands of dollars, except share and per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 47	\$ 2
Accounts receivable, principally customer, net of allowance of \$0.....	2,351	21,971
Receivables from affiliates, net	18,027	45,383
Inventory	76,927	73,564
Accumulated deferred income taxes	22,496	32,830
Prepayments and other current assets	2,127	1,687
Current assets of discontinued operations.....	3,076	29,670
Total current assets.....	125,051	205,107
Property, plant and equipment, gross.....	2,237,667	2,210,575
Accumulated depreciation	(509,179)	(489,631)
Property, Plant and Equipment, net	1,728,488	1,720,944
Other Assets:		
Other intangibles, net.....	163,421	164,950
Long-term note receivable from RRI Energy, Inc.	41,823	53,981
Long-term collateral posted under agreement with RRI Energy, Inc.....	14,392	14,392
Other.....	8,358	8,365
Long-term assets of discontinued operations.....	923	—
Total other assets.....	228,917	241,688
Total Assets	\$ 2,082,456	\$ 2,167,739
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt.....	\$ 12,884	\$ 12,531
Accounts payable, principally trade.....	49,422	47,860
Accrued interest payable.....	19,990	7,996
Other taxes payable	11,676	13,276
Derivative liabilities	87,468	69,468
Other.....	13,378	16,512
Current liabilities of discontinued operations	1,755	4,486
Total current liabilities	196,573	172,129
Other Liabilities:		
Accumulated deferred income taxes.....	136,937	139,218
Benefit obligations.....	64,465	62,377
Taxes payable to RRI Energy, Inc. and related accrued interest.....	50,861	87,408
Other.....	10,017	9,972
Long-term liabilities of discontinued operations	3,542	3,542
Total other liabilities	265,822	302,517
Revolving Credit Facility with RRI Energy, Inc.	63,628	74,471
Long-term Debt.....	400,986	404,403
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	2,211,139	2,211,139
Accumulated deficit.....	(1,041,681)	(982,396)
Accumulated other comprehensive loss.....	(14,012)	(14,525)
Total stockholder's equity	1,155,447	1,214,219
Total Liabilities and Stockholder's Equity	\$ 2,082,456	\$ 2,167,739

See Notes to the Unaudited Consolidated Interim Financial Statements

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

	Three Months Ended March 31,	
	2009	2008
	(thousands of dollars)	
Cash Flows from Operating Activities:		
Net income (loss).....	\$ (59,285)	\$ 20,024
Income from discontinued operations.....	(2,489)	—
Net income (loss) from continuing operations.....	(61,774)	20,024
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization.....	23,100	23,999
Deferred income taxes.....	6,095	6,030
Net changes in energy derivatives.....	18,000	—
Net amortization of contractual rights and obligations.....	(92)	(92)
Amortization of revaluation of acquired debt.....	(3,063)	(2,792)
Gains on sales of assets and emission allowances, net – primarily affiliates.....	(3,050)	(1)
Other, net.....	1,890	—
Changes in other assets and liabilities:		
Accounts receivable, net.....	19,620	(415)
Inventory.....	(3,363)	51
Other current assets.....	588	1,035
Other assets.....	7	380
Accounts payable.....	5,350	10,643
Payable to/receivable from affiliates, net.....	26,761	(14,287)
Collateral returned under agreement with RRI Energy, Inc.....	—	2,000
Income taxes payable/receivable.....	(1,029)	18,695
Accrued interest.....	11,994	11,995
Long-term taxes payable to RRI Energy, Inc. and related accrued interest.....	(36,547)	8,032
Other current liabilities.....	(1,706)	(3,095)
Other liabilities.....	3,027	1,579
Net cash provided by continuing operations from operating activities.....	5,808	83,781
Net cash provided by discontinued operations from operating activities.....	27,693	1,757
Net cash provided by operating activities.....	33,501	85,538
Cash Flows from Investing Activities:		
Capital expenditures.....	(30,880)	(29,708)
Proceeds from sales of emission allowances – affiliates.....	4,467	63
Purchases of emission allowances – affiliates.....	(8,358)	(29,340)
Net cash used in investing activities.....	(34,771)	(58,985)
Cash Flows from Financing Activities:		
Notes receivable from RRI Energy, Inc.....	12,158	—
Changes in revolving credit facility with RRI Energy, Inc., net.....	(10,843)	(26,796)
Net cash provided by (used in) financing activities.....	1,315	(26,796)
Net Change in Cash and Cash Equivalents, Total Operations.....	45	(243)
Cash and Cash Equivalents at Beginning of Period, Continuing Operations.....	2	259
Cash and Cash Equivalents at End of Period, Continuing Operations.....	\$ 47	\$ 16
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest paid (net of amounts capitalized) to third parties for continuing operations.....	\$ (4,989)	\$ —
Income tax payments (net of income tax refunds) for continuing operations.....	1,029	(18,695)

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 RRI Energy, Inc. “RRI Energy” refers to RRI 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, 2008 (2008 annual consolidated financial statements).

Name Change of Reliant Energy. Reliant Energy, Inc. changed its name to RRI Energy, Inc. effective May 2, 2009 in connection with the sale of its Texas retail business.

(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 amounts 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.

Orion Power evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which Orion Power believes to be reasonable under the circumstances. Orion Power adjusts such estimates and assumptions when facts and circumstances dictate.

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, and changes in regulations, timing of maintenance and other expenditures, dispositions, changes in interest expense and other factors. We have reclassified certain amounts reported in these interim financial statements from prior periods to conform to the 2009 presentation. These reclassifications had no impact on reported earnings/losses.

Inventory. Orion Power values fuel inventories at the lower of average cost or market. Orion Power reduces these inventories as they are used in the production of electricity or sold. During the three months ended March 31, 2009 and 2008, Orion Power recorded \$13 million and \$0, respectively, for lower of average cost or market adjustments in cost of sales.

New Accounting Pronouncement Not Yet Adopted — Interim Disclosures about Fair Value of Financial Instruments. The Financial Accounting Standards Board (FASB) issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” which is effective for interim periods ending after June 15, 2009. The FSP amends Statement of Financial Accounting Standards (SFAS) No. 107 “Disclosures about Fair value of Financial Instruments” and will require Orion Power to provide information about the fair value of its financial instruments, including methods and significant assumptions used to estimate the fair value, in interim financial statements.

New Accounting Pronouncement Not Yet Adopted — Fair Value Measurements. The FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have significantly Decreased and Identifying Transactions That Are Not Orderly,” which is effective for interim periods ending after June 15, 2009. The FSP provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157, “Fair Value Measurements” in the current economic environment. Orion Power does not expect this FSP to have a significant impact on its consolidated financial statements.

New Accounting Pronouncement Not Yet Adopted — Disclosures about Plan Assets. The FASB issued FSP FAS 132(R)-1, “Employer’s Disclosures about Postretirement Benefit Plan Assets,” which is effective for 2009. In addition to enhanced disclosures regarding investment policies and strategies, this FSP will require Orion Power to disclose information about fair value measurements of plan assets that would be similar to the disclosures about fair value measurements required by SFAS No. 157, “Fair Value Measurements” in its 2009 annual consolidated financial statements.

(2) Related Party Transactions

These financial statements include the impact of significant transactions between Orion Power and RRI 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. RRI Energy provides commercial support, technical services and other corporate services to Orion Power. RRI 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 RRI 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 March 31,	
	2009	2008
	(in millions)	
Allocated or charged by RRI Energy.....	\$ 12	\$ 13

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

	Three Months Ended March 31,	
	2009	2008
	(in millions)	
Sales to RRI Energy under various commodity agreements ⁽¹⁾	\$ 83	\$ 173
Purchases from RRI Energy under various commodity agreements ⁽²⁾	—	1
Gains on coal sales to RRI Energy ⁽³⁾	—	6
Sales of emission allowances to RRI Energy ⁽⁴⁾	4	—
Gains on emission allowances sales to RRI Energy ⁽⁵⁾	3	—

(1) Recorded in revenues – affiliates.

(2) Recorded in cost of sales – affiliates.

(3) Recorded in cost of sales – affiliates.

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

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

Debt Obligations from/to RRI 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 RRI Energy. This \$75 million Orion MidWest revolving credit facility was increased to \$100 million in April 2009 and matures in December 2009; however, RRI Energy plans to extend the maturity this December such that the facility will terminate no earlier than the scheduled maturity of the Orion Power Holdings senior notes in May 2010. Orion Power has incurred an insignificant amount of interest expense related to this revolving credit facility during the three months ended March 31, 2009 and 2008.

In March 2006, Orion Power made a term loan to RRI Energy for \$92 million, which matures in 2010. The note bears interest at 7.5 percent and interest is payable monthly. During April 2009, RRI Energy paid off the outstanding balance of \$42 million. Orion Power has earned interest income related to this term loan of \$1 million during the three months ended March 31, 2009 and 2008.

Secured Revolving Letter of Credit Facility Agreement with RRI Energy. RRI Energy posts letters of credit on behalf of Orion Power. As of March 31, 2009 and December 31, 2008, RRI Energy posted letters of credit totaling \$14 million on behalf of Orion Power. During September 2006, RRI Energy and Orion Power entered into a Secured Revolving Letter of Credit Facility Agreement whereby Orion Power provides cash to RRI 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 is returned to Orion Power. Orion Power reimburses RRI Energy for the costs of the letters of credit and earns interest income on the collateral posted. As of March 31, 2009 and December 31, 2008, Orion Power has provided cash collateral of \$14 million to RRI Energy. During the three months ended March 31, 2009 and 2008, the letters of credit costs, recorded in interest expense, and the related interest income were insignificant.

Income Taxes. As of March 31, 2009 and December 31, 2008, Orion Power has \$51 million and \$87 million, respectively, recorded as long-term taxes payable to RRI Energy, Inc., which includes accrued interest payable of \$11 million and \$10 million, respectively. Orion Power has incurred interest expense related to this payable of \$1 million during the three months ended March 31, 2009 and 2008. For discussion of Orion Power's policy with respect to income taxes and long-term taxes payable to RRI Energy, Inc., see note 2(l) to the 2008 annual consolidated financial statements.

(3) Derivative Instruments and Hedging Activities

Orion Power accounts for its derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). Effective January 1, 2009, Orion Power adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" (SFAS No. 161).

Changes in commodity prices prior to the energy delivery period are inherent in Orion Power's business. However, Orion Power believes the benefits of generally hedging its generation assets do not justify the costs, including collateral postings. Accordingly, Orion Power may enter selective hedges based on its assessment of (a) operational and market limitations requiring Orion Power to enter into fuel transactions to manage its generation assets, (b) the near term economic environment and volatile commodity markets and the benefits of hedging some of the downside risk to its earnings and cash flows and (c) market fundamentals and the opportunity to increase the return from its generation assets. For its risk management activities, Orion Power uses derivative and non-derivative contracts that provide for settlement in cash or by delivery of a commodity. Orion Power uses derivative instruments such as forwards and options to execute its hedge strategy.

Orion Power accounts for its derivatives under one of three accounting methods (mark-to-market, accrual (under the normal purchase/normal sale exception to fair value accounting) 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. See note 5 for discussion on fair value measurements.

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.

Realized gains and losses on derivative contracts used for risk management purposes and 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 Orion Power's derivative activities and classification in its results of operations is:

<u>Instrument</u>	<u>Primary Risk Exposure</u>	<u>Purpose for Holding or Issuing Instrument ⁽¹⁾</u>	<u>Transactions that Physically Flow/Settle</u>	<u>Transactions that Financially Settle ⁽²⁾</u>
Coal forward and option contracts	Price risk	Coal sales Coal purchases	Cost of sales Cost of sales	Cost of sales Cost of sales

(1) The purpose for holding or issuing does not impact 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, Orion Power is exposed to credit and operational risk. RRI Energy has a risk control framework, to which Orion Power 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. Orion Power uses mark-to-market valuation, value-at-risk and other metrics in monitoring and measuring risk. RRI Energy's risk control framework includes a variety of separate but complementary processes, which involve commercial and senior management and RRI Energy's Board of Directors. See note 4 for further discussion of Orion Power's credit policy.

Unrealized gains and losses on energy derivatives consist of both gains and losses on energy derivatives during the current reporting period for derivative assets or liabilities that have not settled as of the balance sheet date and the reversal of unrealized gains and losses from prior periods for derivative assets or liabilities that settled prior to the balance sheet date but during the current reporting period.

Cash Flow Hedges. 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, Orion Power reclassifies the amounts in accumulated other comprehensive income (loss) into earnings. Orion Power 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 the 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 Orion Power's results of operations. If it becomes probable that a forecasted transaction will not occur, Orion Power 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.

Over the past several years, Orion Power has substantially decreased derivatives accounted for as cash flow hedges, in favor of utilizing the mark-to-market method of accounting or the normal purchase/normal sale exception for these derivatives. During the third quarter of 2006, Orion Power de-designated its remaining cash flow hedges; therefore, as of March 31, 2009 and December 31, 2008, Orion Power does not have any designated cash flow hedges.

Presentation of Derivative Assets and Liabilities. Orion Power presents its derivative assets and liabilities on a gross basis (regardless of master netting arrangements with the same counterparty). Cash collateral amounts are also presented on a gross basis.

As of March 31, 2009, Orion Power's commodity derivative assets and liabilities include amounts for non-trading activities as follows:

	Derivative Assets		Derivative Liabilities		Net Derivative Assets/(Liabilities)
	Current	Long-Term	Current	Long-Term	
	(in millions)				
Non-trading.....	\$ —	\$ —	\$ (87)	\$ —	\$ (87)
Total derivatives ⁽¹⁾ ..	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (87)</u>	<u>\$ —</u>	<u>\$ (87)</u>

(1) There were no derivatives designated as hedging instruments under SFAS No. 133 for the reporting periods presented.

Orion Power has the following derivative commodity contracts outstanding as of March 31, 2009:

Commodity	Unit	Notional Volumes	
		Current	Long-term
(in millions)			
Coal ⁽¹⁾	MMBTU ⁽²⁾	55	199

(1) Orion Power has committed volumes through 2010 and 2011 for which the contract prices are subject to negotiation prior to the beginning of each year.

(2) MMBTU is million British thermal units.

The income (loss) associated with Orion Power's energy derivatives for the three months ended March 31, 2009 is:

Derivatives Not Designated as Hedging Instruments Under SFAS No. 133	Revenues	Cost of Sales
	(in millions)	
<u>Non-Trading Commodity Contracts:</u>		
Unrealized.....	\$ —	\$ (18)
Realized ⁽¹⁾⁽²⁾	—	—
Total non-trading	<u>\$ —</u>	<u>\$ (18)</u>

(1) Does not include realized gains or losses associated with cash month transactions, non-derivative transactions or derivative transactions that qualify for the normal purchase/normal sale exception.

(2) Excludes settlement value of coal contracts classified as inventory upon settlement.

As of March 31, 2009 and December 31, 2008, Orion Power does not have any designated cash flow hedges and there are no deferred derivatives gains or losses remaining in accumulated other comprehensive loss.

(4) Credit Risk

Orion Power 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. Orion Power 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. Orion Power measures credit risk as the replacement cost for its derivative positions plus amounts owed for settled transactions.

Orion Power'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. Orion Power believes this represents the maximum potential loss it would incur if its counterparties failed to perform according to their contract terms. In determining the fair value of its derivative assets, Orion Power includes assumptions for counterparty non-performance risk. See note 5 below and note 2(d) to Orion Power's 2008 annual consolidated financial statements for additional information about fair value measurements. Additionally, Orion Power may provide an allowance for doubtful accounts for outstanding receivable balances. As of March 31, 2009, one non-investment grade counterparty (a coal producer) and one investment grade counterparty (an energy marketer) represented 44% (\$1 million) and 56% (\$1 million), respectively, of its credit exposure. As of December 31, 2008, two non-investment grade counterparties (a coal producer and an electricity generator) and two investment grade counterparties (energy marketers) represented 45% (\$7 million) and 50% (\$8 million), respectively, of its credit exposure. These amounts exclude activity related to contracts classified as normal purchase/normal sale and non-derivative contractual commitments that are not recorded in Orion Power's consolidated balance sheets, except for any related accounts receivable. As of March 31, 2009 and December 31, 2008, Orion Power held no collateral from these counterparties. There were no other counterparties representing greater than 10% of Orion Power's credit exposure.

Orion Power's credit availability is based on RRI Energy's credit ratings. Based on RRI Energy's current credit ratings, any additional collateral postings that would be required from Orion Power due to a credit downgrade would be immaterial. As of March 31, 2009 and December 31, 2008, Orion Power has posted an insignificant amount of cash margin deposits as collateral for its derivative liabilities.

(5) Fair Value Measurements

Orion Power applies recurring fair value measurements to its derivative assets and liabilities. Fair value measurements of its derivative assets and liabilities are as follows:

March 31, 2009				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
(in millions)				
Total derivative assets	\$ —	\$ —	\$ —	\$ —
Total derivative liabilities.....	—	—	87	87

December 31, 2008				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
(in millions)				
Total derivative assets	\$ —	\$ —	\$ —	\$ —
Total derivative liabilities.....	—	—	69	69

The following is a reconciliation of changes in fair value of net derivative assets and liabilities classified as Level 3:

	<u>Three Months Ended March 31, 2009</u>	
	<u>Net Derivatives (Level 3)</u>	
	(in millions)	
Balance, beginning of period.....	\$	(69)
Total gains (losses) realized/unrealized:		
Included in earnings.....		(34) ⁽¹⁾
Purchases, issuances and settlements (net)		16
Transfers in and/or out of Level 3 (net).....		— ⁽²⁾
Balance, end of period.....	<u>\$</u>	<u>(87)</u>
Changes in unrealized gains/losses relating to derivative assets and liabilities still held at March 31, 2009.....		(31) ⁽¹⁾

(1) Recorded in cost of sales.

(2) Represents fair value as of December 31, 2008.

See note 2(d) to Orion Power’s 2008 annual consolidated financial statements for additional information about fair value measurements.

(6) Comprehensive Income (Loss)

The components of total comprehensive income (loss) are:

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
	(in millions)	
Net income and comprehensive income (loss)	<u>\$ (59)</u>	<u>\$ 20</u>

(7) Debt

Outstanding debt to third parties:

	March 31, 2009			December 31, 2008		
	Stated Interest Rate ⁽¹⁾	Long-term	Current	Stated Interest Rate ⁽¹⁾	Long-term	Current
		(in millions, except interest rates)				
Orion Power Holdings senior notes due 2010 (unsecured)	12.00	\$ 400	\$ —	12.00	\$ 400	\$ —
Adjustment to fair value of debt ⁽²⁾		1	13		4	13
Total debt		<u>\$ 401</u>	<u>\$ 13</u>		<u>\$ 404</u>	<u>\$ 13</u>

(1) The stated interest rates are as of March 31, 2009 or December 31, 2008.

(2) Included in interest expense is amortization of \$3 million for valuation adjustments for debt during the three months ended March 31, 2009 and 2008.

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

(8) Income Taxes

(a) Tax Rate Reconciliation.

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

	Three Months Ended March 31,	
	2009	2008
Federal statutory rate	(35)%	35%
Additions (reductions) resulting from:		
State income taxes, net of federal income taxes	1	4
Effective rate	<u>(34)%</u>	<u>39%</u>

(b) Valuation Allowances.

Orion Power assesses its future ability to use federal and state net operating loss carryforwards, capital loss carryforwards and other deferred tax assets using the more-likely-than-not criteria. These assessments include an evaluation of its 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.

Orion Power's valuation allowances for deferred tax assets are (in millions):

	State
As of December 31, 2008	\$ 21
Changes in valuation allowances	5
As of March 31, 2009	<u>\$ 26</u>

(c) FIN 48 and Income Tax Uncertainties.

Orion Power's unrecognized federal and state tax benefits did not change significantly during the three months ended March 31, 2009 and 2008.

(9) Guarantees and Indemnifications

Equity Pledged as Collateral for RRI Energy. Orion Power Holdings' equity is pledged as collateral under certain of RRI Energy's credit and debt agreements, which have an outstanding balance of \$1.2 billion as of March 31, 2009.

Interests Pledged as Collateral to RRI Energy. In connection with Orion Power's debt to RRI 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 RRI 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 purchase and 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.

(10) Contingencies

Orion Power is involved in some 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 these 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." In September 2008, Orion Power received an EPA request for information related to its Avon Lake and Niles generation facilities. The EPA 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 (\$7 million as of March 31, 2009 and December 31, 2008) associated with these environmental liabilities as part of its asset retirement obligations. See note 2(q) to the 2008 annual consolidated financial statements.

Sales Tax Contingencies. Some of Orion Power's sales tax computations are subject to challenge under audit. As of March 31, 2009 and December 31, 2008, Orion Power has \$2 million accrued 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 March 31, 2009 and December 31, 2008, Orion Power has \$4 million accrued in long-term liabilities of discontinued operations relating to these contingencies.

(11) Other Employee Matters

As of March 31, 2009, approximately 74% of Orion Power's employees are subject to collective bargaining arrangements. Approximately 50% of Orion Power's employees are subject to collective bargaining arrangements that will expire by March 31, 2010. Orion Power intends to negotiate the renewal of these agreements.

(12) 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, consolidated cash flows and consolidated balance sheets, as applicable. Orion Power recognized \$3 million of income before income taxes from discontinued operations during the three months ended March 31, 2009. In addition, during the three months ended March 31, 2009, Orion Power received a \$28 million refund (previously accrued in current assets) relating to Empire Zone credits for the 2004, 2005 and 2006 periods.

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

The following should be read in conjunction with our 2008 annual consolidated financial statements.

Consolidated Results of Operations

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Net Income (Loss). We reported \$59 million consolidated net loss for the three months ended March 31, 2009 compared to \$20 million consolidated net income for the same period in 2008.

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Gross margin ⁽¹⁾	\$ (26)	\$ 108	\$ (134)
Operation and maintenance (including from affiliates) ..	(35)	(36)	1
Taxes other than income taxes.....	(3)	(3)	—
General and administrative – primarily affiliates	(5)	(5)	—
Gains on sales of assets and emission allowances, net – primarily affiliates	3	—	3
Depreciation and amortization.....	(23)	(24)	1
Interest expense	(4)	(6)	2
Interest expense – affiliates	(1)	(2)	1
Interest income – primarily affiliates.....	1	1	—
Income tax (expense) benefit.....	31	(13)	44
Income (loss) from continuing operations	(62)	20	(82)
Income from discontinued operations.....	3	—	3
Net income (loss).....	<u>\$ (59)</u>	<u>\$ 20</u>	<u>\$ (79)</u>

(1) Revenues less cost of sales.

Revenues (including from affiliates).

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Third-party revenues.....	\$ 1	\$ 4	\$ (3)
Revenues – affiliates.....	83	173	(90)
Revenues	<u>\$ 84</u>	<u>\$ 177</u>	<u>\$ (93)</u>

(1) Merchant sales to PJM Interconnection, LLC through RRI Energy affiliates decreased due to (a) lower sales volumes and (b) lower market prices.

Cost of Sales (including from affiliates).

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Cost of sales.....	\$ 92	\$ 74	\$ 18
Cost of sales – affiliates.....	—	(5)	5
Unrealized losses on energy derivatives.....	18	—	18
Cost of sales	<u>\$ 110</u>	<u>\$ 69</u>	<u>\$ 41</u>

(1) Increase primarily due to (a) higher coal prices, (b) payments to reduce fixed price coal commitments for future periods and (c) loss on market adjustments to inventory. This increase was partially offset by decreased coal volumes.

(2) See footnote 2 under “Gross Margin” below.

Gross Margin.

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Orion MidWest.....	\$ (8)	\$ 108	\$ (116) ⁽¹⁾
Net unrealized losses on energy derivatives.....	(18)	—	(18) ⁽²⁾
Gross margin.....	<u>\$ (26)</u>	<u>\$ 108</u>	<u>\$ (134)</u>

(1) Decrease primarily due to (a) lower unit margins (lower power prices), (b) decline on fuel hedges, (c) payments to reduce fixed price coal commitments for future periods and (d) loss on market adjustments to inventory.

(2) Decrease primarily due to \$31 million in losses due to the effect of changes in prices on our energy derivatives marked to market. This decrease was offset by \$13 million in gains due reversal of previously recognized unrealized losses on energy derivatives which settled during the period.

Operation and Maintenance (including from affiliates).

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Planned outages and maintenance spending.....	\$ 13	\$ 14	\$ (1)
Plant support costs.....	13	15	(2)
Commercial support allocations.....	6	6	—
Other, net.....	3	1	2
Operation and maintenance (including from affiliates).....	<u>\$ 35</u>	<u>\$ 36</u>	<u>\$ (1)</u>

Taxes Other than Income Taxes.

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Property taxes.....	\$ 2	\$ 2	\$ —
Other, net.....	1	1	—
Taxes other than income taxes.....	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ —</u>

General and Administrative – Primarily Affiliates.

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Allocations from RRI Energy.....	\$ 5	\$ 5	\$ —
General and administrative – primarily affiliates.....	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ —</u>

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

	Three Months Ended March 31,		
	2009	2008	Change
	(in millions)		
Emission allowances.....	\$ 3	\$ —	\$ 3
Gains on sales of assets and emission allowances, net – primarily affiliates.....	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 3</u>

Depreciation and Amortization.

	Three Months Ended March 31,		
	2009	2008	Change
		(in millions)	
Depreciation on plants	\$ 19	\$ 20	\$ (1)
Amortization of emission allowances	4	4	—
Depreciation and amortization	<u>\$ 23</u>	<u>\$ 24</u>	<u>\$ (1)</u>

Interest Expense (including from affiliates).

	Three Months Ended March 31,		
	2009	2008	Change
		(in millions)	
Interest expense	\$ 9	\$ 9	\$ —
Interest expense – affiliates	1	2	(1)
Capitalized interest ⁽¹⁾	(5)	(3)	(2)
Interest expense (including from affiliates)	<u>\$ 5</u>	<u>\$ 8</u>	<u>\$ (3)</u>

(1) Relates primarily to a scrubber project at our Cheswick plant.

Interest Income — Primarily Affiliates.

	Three Months Ended March 31,		
	2009	2008	Change
		(in millions)	
Interest income on note receivable from RRI Energy, Inc.	\$ 1	\$ 1	\$ —
Interest income – primarily affiliates	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ —</u>

Income Tax Expense (Benefit). See note 8 to our interim financial statements.

Income from Discontinued Operations. See note 12 to our interim financial statements.