ORION POWER HOLDINGS, INC. AND SUBSIDIARIES

As of June 30, 2009 and December 31, 2008 and For the Three and Six Months Ended June 30, 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(thousands of dollars)			
Revenues:				
Revenues	$ 2,551	$ 4,346	$ 3,420	$ 7,867
Revenues – affiliates	67,594	159,247	150,928	332,364
Total	70,145	163,593	154,348	340,231
Expenses:				
Cost of sales	70,281	61,768	180,037	135,127
Cost of sales – affiliates	599	653	1,158	(4,515)
Operation and maintenance	30,959	33,583	59,542	62,625
Operation and maintenance – affiliates	8,474	8,088	14,777	15,669
Taxes other than income taxes	2,719	2,653	5,588	5,348
General and administrative – primarily affiliates	6,353	6,082	11,746	11,256
Gains on sales of assets and emission allowances, net – primarily affiliates	(75)	(515)	(3,125)	(516)
Depreciation	20,036	20,768	39,584	40,326
Amortization	3,125	7,568	6,677	12,009
Total operating expenses	142,471	140,648	315,984	277,329
Operating Income (Loss)	(72,326)	22,945	(161,636)	62,902
Other Income (Expense):				
Other, net	7	—	7	1
Interest expense	(3,470)	(6,523)	(7,479)	(13,280)
Interest expense – affiliates	(885)	(1,338)	(1,773)	(2,935)
Interest income – primarily affiliates	243	1,362	1,039	2,796
Total other expense	(4,105)	(6,499)	(8,206)	(13,418)
Income (Loss) from Continuing Operations Before Income Taxes	(76,431)	16,446	(169,842)	49,484
Income tax expense (benefit)	(25,650)	6,447	(57,287)	19,461
Income (Loss) from Continuing Operations	(50,781)	9,999	(112,555)	30,023
Income (loss) from discontinued operations	—	(1,480)	2,489	(1,480)
Net Income (Loss)	$ (50,781)	$ 8,519	$(110,066)	$ 28,543

See Notes to the Unaudited Consolidated Interim Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2009	December 31, 2008
	(unaudited) (thousands of dollars, except share and per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26	$ 2
Accounts receivable, principally customer, net of allowance of $0	2,191	21,971
Receivables from affiliates, net	23,821	45,383
Inventory	70,768	73,564
Accumulated deferred income taxes	12,270	32,830
Collateral posted under agreement with RRI Energy, Inc.	14,392	—
Prepayments and other current assets	5,193	1,687
Current assets of discontinued operations	—	29,670
Total current assets	128,661	205,107
Property, plant and equipment, gross	2,262,882	2,210,575
Accumulated depreciation	(528,288)	(489,631)
Property, Plant and Equipment, net	1,734,594	1,720,944
Other Assets:		
Other intangibles, net	161,843	164,950
Long-term note receivable from RRI Energy, Inc.	—	53,981
Long-term collateral posted under agreement with RRI Energy, Inc.	—	14,392
Other	3,046	8,365
Long-term assets of discontinued operations	923	—
Total other assets	165,812	241,688
Total Assets	$ 2,029,067	$ 2,167,739
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 410,814	$ 12,531
Accounts payable, principally trade	41,250	47,860
Accrued interest payable	7,996	7,996
Other taxes payable	13,874	13,276
Derivative liabilities	60,974	69,468
Other	25,122	16,512
Revolving credit facility with RRI Energy, Inc.	138,181	—
Current liabilities of discontinued operations	1,755	4,486
Total current liabilities	699,966	172,129
Other Liabilities:		
Accumulated deferred income taxes	112,550	139,218
Benefit obligations	65,726	62,377
Taxes payable to RRI Energy, Inc. and related accrued interest	32,477	87,408
Other	9,629	9,972
Long-term liabilities of discontinued operations	3,542	3,542
Total other liabilities	223,924	302,517
Revolving Credit Facility with RRI Energy, Inc.	—	74,471
Long-term Debt	—	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	(1,092,462)	(982,396)
Accumulated other comprehensive loss	(13,501)	(14,525)
Total stockholder's equity	1,105,177	1,214,219
Total Liabilities and Stockholder's Equity	$ 2,029,067	$ 2,167,739

See Notes to the Unaudited Consolidated Interim Financial Statements

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(thousands of dollars)	
Cash Flows from Operating Activities:		
Net income (loss)	$ (110,066)	$ 28,543
(Income) loss from discontinued operations	(2,489)	1,480
Net income (loss) from continuing operations	(112,555)	30,023
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	46,261	52,335
Deferred income taxes	(886)	4,955
Net changes in energy derivatives	(8,494)	—
Net amortization of contractual rights and obligations	(158)	(158)
Amortization of revaluation of acquired debt	(6,119)	(5,577)
Gains on sales of assets and emission allowances, net – primarily affiliates	(3,125)	(516)
Other, net	9,560	—
Changes in other assets and liabilities:		
Accounts receivable, net	19,780	(451)
Inventory	2,796	(16,591)
Other current assets	(2,539)	(1,527)
Other assets	(768)	380
Accounts payable	116	(1,458)
Payable to/receivable from affiliates, net	21,562	(30,746)
Collateral returned under agreement with RRI Energy, Inc.	—	2,000
Income taxes payable/receivable	(1,563)	18,672
Long-term taxes payable to RRI Energy, Inc. and related accrued interest	(54,931)	15,401
Other current liabilities	1,638	358
Other liabilities	4,765	4,220
Net cash provided by (used in) continuing operations from operating activities	(84,660)	71,320
Net cash provided by discontinued operations from operating activities	30,769	1,757
Net cash provided by (used in) operating activities	(53,891)	73,077
Cash Flows from Investing Activities:		
Capital expenditures	(59,960)	(66,461)
Proceeds from sales of emission allowances – affiliates	4,467	63
Purchases of emission allowances – affiliates	(8,358)	(32,887)
Other, net	75	515
Net cash used in investing activities	(63,776)	(98,770)
Cash Flows from Financing Activities:		
Notes receivable from RRI Energy, Inc.	53,981	—
Changes in revolving credit facility with RRI Energy, Inc., net	63,710	25,534
Net cash provided by financing activities	117,691	25,534
Net Change in Cash and Cash Equivalents, Total Operations	24	(159)
Cash and Cash Equivalents at Beginning of Period, Continuing Operations	2	259
Cash and Cash Equivalents at End of Period, Continuing Operations	$ 26	$ 100
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest paid (net of amounts capitalized) to third parties for continuing operations	$ 13,523	$ 18,857
Income tax payments (net of income tax refunds) for continuing operations	968	(18,673)

See Notes to the Unaudited Consolidated Interim Financial Statements

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. Orion Power has evaluated subsequent events for recording and disclosure through August 11, 2009, the date the interim financial statements were available to be issued.

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. Orion Power recorded $22 million and $0 during the three months ended June 30, 2009 and 2008, respectively, for lower of average cost or market adjustments in cost of sales and recorded $36 million and $0 during the six months ended June 30, 2009 and 2008, respectively.

FASB Codification. The Financial Accounting Standards Board's (FASB) Accounting Standards Codification became effective for Orion Power in the third quarter of 2009. The Codification brings together in one place all authoritative GAAP and substantially retains existing GAAP. This change will not affect Orion Power's consolidated financial statements.

New Accounting Pronouncement Adopted — Interim Disclosures about Fair Value of Financial Instruments. The FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which is effective for the June 30, 2009 interim financial statements. The FSP amends Statement of Financial Accounting Standards (SFAS) No. 107 "Disclosures about Fair value of Financial Instruments" and requires 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. See note 3.

New Accounting Pronouncement 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 the June 30, 2009 interim financial statements. The FSP provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157, "Fair Value Measurements" when there has been a significant decrease in the volume and level of activity for an asset or liability compared with normal market activity for the asset or liability. This FSP did not have a significant impact on its consolidated financial statements since the markets in which Orion Power purchases and sells commodities and derivative instruments are not distressed. See notes 3 and 4.

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 in its 2009 annual consolidated financial statements 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."

(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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Allocated or charged by RRI Energy	$ 14	$ 14	$ 26	$ 27

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Sales to RRI Energy under various commodity agreements(1)	$ 68	$ 159	$ 151	$ 332
Purchases from RRI Energy under various commodity agreements (2)	1	—	1	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 $200 million in July 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 interest expense related to this revolving credit facility during the three and six months ended June 30, 2009 and 2008 of $1 million.

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 and $2 million during the six months ended June 30, 2009 and 2008, respectively.

Secured Revolving Letter of Credit Facility Agreement with RRI Energy. RRI Energy posts letters of credit on behalf of Orion Power. As of June 30, 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 June 30, 2009 and December 31, 2008, Orion Power has provided cash collateral of $14 million to RRI Energy. During the three and six months ended June 30, 2009 and 2008, the letters of credit costs, recorded in interest expense, and the related interest income were insignificant.

Income Taxes. As of June 30, 2009 and December 31, 2008, Orion Power has $32 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 $0 and $1 million during the three months ended June 30, 2009 and 2008, respectively, and $1 million and $2 million during the six months ended June 30, 2009 and 2008, respectively. 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) Fair Value Measurements

Fair Value Hierarchy and Valuation Techniques. Orion Power applies recurring fair value measurements to its derivative assets and liabilities. In determining fair value, Orion Power generally uses the market approach and incorporates assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation techniques. These inputs can be readily observable, market corroborated, or generally unobservable internally-developed inputs. Based on the observability of the inputs used in the valuation techniques, the derivative assets and liabilities are classified as follows:

Level 1: Level 1 represents unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Level 2 represents quoted market prices for similar assets or liabilities in active markets, quoted market prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: This category includes energy derivative instruments whose fair value is estimated based on prices in inactive markets that are not observable. Orion Power's OTC derivative instruments that are transacted in less liquid markets with limited pricing information are included in Level 3, which are coal contracts.

Fair Value of Derivative Instruments. 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:

	June 30, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
	(in millions)			
Total derivative assets	$ —	$ —	$ —	$ —
Total derivative liabilities	—	—	61	61

	December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
	(in millions)			
Total derivative assets	$ —	$ —	$ —	$ —
Total derivative liabilities	—	—	69	69

The fair values of cash and cash equivalents, accounts receivable and payable and derivative assets and liabilities approximate their carrying amounts. Values of Orion Power's third-party debt (see note 7) are:

	June 30, 2009		December 31, 2008	
	Carrying Value	Fair Value(1)	Carrying Value	Fair Value(1)
	(in millions)			
Fixed rate debt	$ 411	$ 413	$ 417	$ 397
Total debt	$ 411	$ 413	$ 417	$ 397

(1) Orion Power based the fair value of its fixed rate debt on market prices and quotes from an investment bank.

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

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	Net Derivatives (Level 3)	Net Derivatives (Level 3)
	(in millions)	
Balance, beginning of period	$ (87)	$ (69)
Total gains (losses) realized/unrealized:		
Included in earnings	3 (1)	(31) (1)
Purchases, issuances and settlements (net)	23	39
Transfers in and/or out of Level 3 (net)	— (2)	— (3)
Balance, end of period	$ (61)	$ (61)
Changes in unrealized gains (losses) relating to derivative assets and liabilities still held at June 30, 2009	5 (1)	(19) (1)

(1) Recorded in cost of sales.
(2) Represents fair value as of March 31, 2009.
(3) 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.

(4) 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 3 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:

Instrument	Primary Risk Exposure	Purpose for Holding or Issuing Instrument (1)	Transactions that Physically Flow/Settle	Transactions that Financially Settle (2)
Coal forward and option contracts	Price risk	Coal sales	Cost of sales	Cost of sales
		Coal purchases	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 5 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 June 30, 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 June 30, 2009, Orion Power's commodity derivative assets and liabilities include amounts for non-trading activities as follows:

	Derivative Assets		Derivative Liabilities		Net Derivative
	Current	Long-Term	Current	Long-Term	Assets/(Liabilities)
			(in millions)		
Non-trading	$ —	$ —	$ (61)	$ —	$ (61)
Total derivatives	$ —	$ —	$ (61)	$ —	$ (61)

Orion Power has the following derivative commodity contracts outstanding as of June 30, 2009:

Commodity	Unit	Notional Volumes Current	Notional Volumes Long-term
		(in millions)	
Coal[(1)]	MMBTU [(2)]	59	180

(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 is:

Derivatives Not Designated as Hedging Instruments Under SFAS No. 133	Three Months Ended June 30, 2009		Six Months Ended June 30, 2009	
	Revenues	Cost of Sales	Revenues	Cost of Sales
		(in millions)		
Non-Trading Commodity Contracts:				
Unrealized	$ —	$ 26	$ —	$ 8
Realized[(1)(2)]	—	—	—	—
Total non-trading	$ —	$ 26	$ —	$ 8

(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 June 30, 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.

(5) 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 3 above 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 June 30, 2009, Orion Power's derivative assets and accounts receivable from counterparties, after taking into consideration netting within each contract and any master netting contracts with counterparties, are:

Credit Rating Equivalent	Exposure Before Collateral[1]	Credit Collateral Held[2]	Exposure Net of Collateral	Number of Counterparties >10%	Net Exposure of Counterparties >10%
			(dollars in millions)		
Investment grade	$ —	$ —	$ —	—	$ —
Non-investment grade	1	—	1	1 [3]	1
No external ratings:					
Internally rated – Investment grade	—	—	—	—	—
Internally rated – Non-investment grade	1	—	1	1 [4]	1
Total	$ 2	$ —	$ 2	2	$ 2

(1) The table excludes amounts related to contracts classified as normal purchase/normal sale and non-derivative contractual commitments that are not recorded in our consolidated balance sheets, except for any related accounts receivable. Such contractual commitments contain credit and economic risk if a counterparty does not perform. Nonperformance could have a material adverse impact on our future results of operations, financial condition and cash flows.
(2) When applicable, collateral consists of cash, standby letters of credit or other forms approved by management.
(3) This counterparty is a coal producer.
(4) This counterparty is a coal trader.

As of December 31, 2008, two non-investment grade counterparties (a coal producer and an electricity generator) and two investment grade counterparties (energy merchants) represented 45% ($7 million) and 50% ($8 million), respectively, of its credit exposure. As of December 31, 2008, Orion Power held no collateral from these counterparties.

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 June 30, 2009 and December 31, 2008, Orion Power has posted $0 of cash margin deposits as collateral for its derivative liabilities receiving mark-to-market accounting treatment and/or its accounts payable. See note 4.

(6) Comprehensive Income (Loss)

The components of total comprehensive income (loss) are:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Net income (loss)	$ (51)	$ 9	$ (110)	$ 29
Other comprehensive income, net of tax:				
Reclassification of benefits actuarial net gain into net income/loss (net of tax)	1	—	1	—
Comprehensive income (loss)	$ (50)	$ 9	$ (109)	$ 29

(7) Debt

	June 30, 2009 Stated Interest Rate(1)	June 30, 2009 Long-term	June 30, 2009 Current	December 31, 2008 Stated Interest Rate(1)	December 31, 2008 Long-term	December 31, 2008 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)		—	11		4	13
Total debt		$ —	$ 411		$ 404	$ 13

(1) The stated interest rates are as of June 30, 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 June 30, 2009 and 2008 and $6 million during the six months ended June 30, 2009 and 2008.

Orion Power plans to fund the $400 million debt obligation with cash from RRI Energy. 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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)			
Federal statutory rate	(35)%	35%	(35)%	35%
Additions (reductions) resulting from:				
State income taxes, net of federal income taxes	1 (1)	4	1 (2)	4
Effective rate	(34)%	39%	(34)%	39%

(1) Of this percentage, $4 million relates to additional valuation allowance.
(2) Of this percentage, $9 million relates to additional valuation allowance.

(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	26
Changes in valuation allowances	4
As of June 30, 2009	$ 30

(c) FIN 48 and Income Tax Uncertainties.

Orion Power's unrecognized federal and state tax benefits did not change significantly during the three and six months ended June 30, 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 $897 million as of June 30, 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 ($6 million and $7 million as of June 30, 2009 and December 31, 2008, respectively) 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 June 30, 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 June 30, 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 June 30, 2009, approximately 75% of Orion Power's employees are subject to collective bargaining arrangements. Approximately 45% of Orion Power's employees are subject to collective bargaining arrangements that will expire by June 30, 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.

Amounts related to Orion Power's discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Revenues	$ —	$ —	$ 2	$ —
Income (loss) before income tax expense/benefit	—	(3)	3	(3)

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 June 30, 2009 Compared to Three Months Ended June 30, 2008

Net Income (Loss). We reported $51 million consolidated net loss for the three months ended June 30, 2009 compared to $9 million consolidated net income for the same period in 2008.

	Three Months Ended June 30,		
	2009	2008	Change
		(in millions)	
Gross margin[1]	$ (1)	$ 102	$ (103)
Operation and maintenance (including from affiliates)	(39)	(43)	4
Taxes other than income taxes	(3)	(2)	(1)
General and administrative – primarily affiliates	(7)	(6)	(1)
Depreciation and amortization	(23)	(28)	5
Interest expense	(3)	(7)	4
Interest expense – affiliates	(1)	(1)	—
Interest income – primarily affiliates	—	1	(1)
Income tax (expense) benefit	26	(6)	32
Income (loss) from continuing operations	(51)	10	(61)
Loss from discontinued operations	—	(1)	1
Net income (loss)	$ (51)	$ 9	$ (60)

(1) Revenues less cost of sales.

Revenues (including from affiliates).

	Three Months Ended June 30,			
	2009	2008	Change	
		(in millions)		
Third-party revenues	$ 2	$ 4	$ (2)	
Revenues – affiliates	68	159	(91)	(1)
Revenues	$ 70	$ 163	$ (93)	

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

Cost of Sales (including from affiliates).

	Three Months Ended June 30,			
	2009	2008	Change	
		(in millions)		
Cost of sales	$ 96	$ 61	$ 35	(1)
Cost of sales – affiliates	1	—	1	
Unrealized gains on energy derivatives	(26)	—	(26)	(2)
Cost of sales	$ 71	$ 61	$ 10	

(1) Increase primarily due to (a) loss on market adjustments to inventory, (b) payments to reduce fixed price coal commitments for future periods and (c) increased coal prices. These increases were partially offset by decreased coal volumes.
(2) See footnote 2 under "Gross Margin" below.

Gross Margin.

	Three Months Ended June 30, 2009	2008	Change	
		(in millions)		
Orion MidWest	$ (27)	$ 102	$ (129)	(1)
Unrealized gains on energy derivatives	26	—	26	(2)
Gross margin	$ (1)	$ 102	$ (103)	

(1) Decrease primarily due to (a) decline on fuel hedges, (b) lower unit margins (lower power prices partially offset by lower fuel costs), (c) loss on market adjustments to inventory and (d) payments to reduce fixed price coal commitments for future periods.
(2) Increase primarily due to (a) $21 million in gains due to reversal of previously recognized unrealized losses on energy derivatives which settled during the period and (b) $13 million in gains due to the effect of a contract renegotiation. These increases were partially offset by $8 million in losses due to the effect of changes in prices on our energy derivatives marked to market.

Operation and Maintenance (including from affiliates).

	Three Months Ended June 30, 2009	2008	Change
		(in millions)	
Planned outages and maintenance spending	$ 18	$ 18	$ —
Plant support costs	12	14	(2)
Commercial support allocations	6	7	(1)
Other, net	3	4	(1)
Operation and maintenance (including from affiliates)	$ 39	$ 43	$ (4)

Taxes Other than Income Taxes.

	Three Months Ended June 30, 2009	2008	Change
		(in millions)	
Property taxes	$ 3	$ 2	$ 1
Taxes other than income taxes	$ 3	$ 2	$ 1

General and Administrative – Primarily Affiliates.

	Three Months Ended June 30, 2009	2008	Change
		(in millions)	
Allocations from RRI Energy	$ 7	$ 6	$ 1
General and administrative – primarily affiliates	$ 7	$ 6	$ 1

Gains on Sales of Assets and Emission Allowances, Net — Primarily Affiliates. This amount did not change significantly.

Depreciation and Amortization.

	Three Months Ended June 30, 2009	2008	Change	
		(in millions)		
Depreciation on plants	$ 20	$ 20	$ —	
Amortization of emission allowances	3	8	(5)	(1)
Depreciation and amortization	$ 23	$ 28	$ (5)	

(1) Decrease primarily due to lower weighted average cost of SO_2 allowances.

Interest Expense (including from affiliates).

	Three Months Ended June 30, 2009	2008	Change
		(in millions)	
Interest expense	$ 9	$ 9	$ —
Interest expense – affiliates	1	1	—
Capitalized interest[(1)]	(6)	(2)	(4)
Interest expense (including from affiliates)	$ 4	$ 8	$ (4)

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

Interest Income — Primarily Affiliates.

	Three Months Ended June 30, 2009	2008	Change
		(in millions)	
Interest income on note receivable from RRI Energy, Inc.	$ —	$ 1	$ (1)
Interest income – primarily affiliates	$ —	$ 1	$ (1)

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

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

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Net Income (Loss). We reported $110 million consolidated net loss for the six months ended June 30, 2009 compared to $29 million consolidated net income for the same period in 2008.

	Six Months Ended June 30, 2009	2008	Change
		(in millions)	
Gross margin[(1)]	$ (27)	$ 210	$ (237)
Operation and maintenance (including from affiliates)	(74)	(79)	5
Taxes other than income taxes	(6)	(5)	(1)
General and administrative – primarily affiliates	(12)	(11)	(1)
Gains on sales of assets and emission allowances, net – primarily affiliates	3	—	3
Depreciation and amortization	(46)	(52)	6
Interest expense	(7)	(13)	6
Interest expense – affiliates	(2)	(3)	1
Interest income – primarily affiliates	1	2	(1)
Income tax (expense) benefit	57	(19)	76
Income (loss) from continuing operations	(113)	30	(143)
Income (loss) from discontinued operations	3	(1)	4
Net income (loss)	$ (110)	$ 29	$ (139)

(1) Revenues less cost of sales.

Revenues (including from affiliates).

	Six Months Ended June 30, 2009	2008 (in millions)	Change	
Third-party revenues	$ 3	$ 8	$ (5)	
Revenues – affiliates	151	332	(181)	(1)
Revenues	$ 154	$ 340	$ (186)	

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

Cost of Sales (including from affiliates).

	Six Months Ended June 30, 2009	2008 (in millions)	Change	
Cost of sales	$ 188	$ 135	$ 53	(1)
Cost of sales – affiliates	1	(5)	6	
Unrealized gains on energy derivatives	(8)	—	(8)	(2)
Cost of sales	$ 181	$ 130	$ 51	

(1) Increase primarily due to (a) loss on market adjustments to inventory, (b) higher coal prices and (c) payments to reduce fixed price coal commitments for future periods. This increase was partially offset by decreased coal volumes.
(2) See footnote 2 under "Gross Margin" below.

Gross Margin.

	Six Months Ended June 30, 2009	2008 (in millions)	Change	
Orion MidWest	$ (35)	$ 210	$ (245)	(1)
Unrealized gains on energy derivatives	8	—	8	(2)
Gross margin	$ (27)	$ 210	$ (237)	

(1) Decrease primarily due to (a) decline on fuel hedges, (b) lower unit margins (lower power prices partially offset by lower fuel costs), (c) loss on market adjustments to inventory and (d) payments to reduce fixed price coal commitments for future periods.
(2) Increase primarily due to (a) $27 million in gains due to reversal of previously recognized unrealized losses on energy derivatives which settled during the period and (b) $10 million in gains due to the effect of a contract renegotiation. These increases were partially offset by $29 million in losses due to the effect of changes in prices on our energy derivatives marked to market.

Operation and Maintenance (including from affiliates).

	Six Months Ended June 30, 2009	2008 (in millions)	Change
Planned outages and maintenance spending	$ 31	$ 32	$ (1)
Plant support costs	25	29	(4)
Commercial support allocations	12	13	(1)
Other, net	6	5	1
Operation and maintenance (including from affiliates)	$ 74	$ 79	$ (5)

Taxes Other than Income Taxes.

	Six Months Ended June 30, 2009	2008	Change
		(in millions)	
Property taxes	$ 5	$ 4	$ 1
Other, net	1	1	—
Taxes other than income taxes	$ 6	$ 5	$ 1

General and Administrative – Primarily Affiliates.

	Six Months Ended June 30, 2009	2008	Change
		(in millions)	
Allocations from RRI Energy	$ 12	$ 11	$ 1
General and administrative – primarily affiliates	$ 12	$ 11	$ 1

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

	Six Months Ended June 30, 2009	2008	Change
		(in millions)	
Emission allowances	$ 3	$ —	$ 3
Gains on sales of assets and emission allowances, net – primarily affiliates	$ 3	$ —	$ 3

Depreciation and Amortization.

	Six Months Ended June 30, 2009	2008	Change	
		(in millions)		
Depreciation on plants	$ 39	$ 40	$ (1)	
Amortization of emission allowances	7	12	(5)	(1)
Depreciation and amortization	$ 46	$ 52	$ (6)	

(1) Decrease primarily due to (a) lower weighted average cost of SO_2 allowances and (b) decrease in SO_2 allowances used.

Interest Expense (including from affiliates).

	Six Months Ended June 30, 2009	2008	Change
		(in millions)	
Interest expense	$ 18	$ 18	$ —
Interest expense – affiliates	2	3	(1)
Capitalized interest[1]	(11)	(5)	(6)
Interest expense (including from affiliates)	$ 9	$ 16	$ (7)

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

Interest Income — Primarily Affiliates.

	Six Months Ended June 30,		
	2009	2008	Change
		(in millions)	
Interest income on note receivable from RRI Energy, Inc.	$ 1	$ 2	$ (1)
Interest income – primarily affiliates	$ 1	$ 2	$ (1)

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

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