

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES

As of December 31, 2009 and 2008 and For the Two Years Ended December 31, 2009

- Forward-Looking Statements
- Financial Statements (as of December 31, 2009 and 2008 and for the three years ended December 31, 2009)
- Management's Discussion and Analysis of Financial Condition and Results of Operations
- Quantitative and Qualitative Disclosures About Market Risk
- Unaudited Quarterly Information
- Ratio of Earnings from Continuing Operations to Fixed Charges (for the five years ended December 31, 2009)

“Orion Power” refers to Orion Power Holdings, Inc. and its consolidated subsidiaries and “we,” “us” and “our” refer to Orion Power, unless we specify or the context indicates otherwise. “RRI Energy” refers to RRI Energy, Inc. and its consolidated subsidiaries, unless we specify or the context indicates otherwise. We are a wholly-owned subsidiary of RRI Energy. All other terms not defined herein are defined in the notes to our consolidated financial statements.

Forward-Looking Statements

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,” “continue,” “could,” “intend,” “may,” “plan,” “potential,” “predict,” “should,” “will,” “expect,” “objective,” “projection,” “forecast,” “goal,” “guidance,” “outlook,” “effort,” “target” and other 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 undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ORION POWER HOLDINGS, INC.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder
Orion Power Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Orion Power Holdings, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholder's equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orion Power Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Houston, Texas
February 24, 2010

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

	2009	2008	2007
	(thousands of dollars)		
Revenues:			
Revenues.....	\$ 9,122	\$ 14,615	\$ 22,317
Revenues – affiliates.....	302,636	570,863	542,568
Total.....	311,758	585,478	564,885
Expenses:			
Cost of sales.....	275,751	247,817	227,240
Cost of sales – affiliates.....	1,937	(3,467)	(5,521)
Operation and maintenance.....	104,957	132,277	161,713
Operation and maintenance – affiliates.....	26,958	32,787	37,696
Taxes other than income taxes.....	8,021	10,587	11,570
General and administrative – primarily affiliates.....	23,000	24,626	27,685
Gains on sales of assets and emission allowances, net – primarily affiliate.....	(2,654)	(617)	(7,480)
Goodwill and long-lived assets impairments.....	120,053	173,570	—
Depreciation and amortization.....	89,001	104,261	137,602
Total operating expenses.....	647,024	721,841	590,505
Operating Income (Loss).....	(335,266)	(136,363)	(25,620)
Other Income (Expense):			
Other, net.....	7	4,488	—
Interest expense.....	(19,375)	(23,284)	(34,314)
Interest expense – affiliates.....	(4,357)	(5,987)	(9,293)
Interest income – primarily affiliates.....	1,058	5,514	8,452
Total other expense.....	(22,667)	(19,269)	(35,155)
Loss from Continuing Operations Before Income			
Taxes	(357,933)	(155,632)	(60,775)
Income tax benefit.....	(120,973)	(26,323)	(25,737)
Loss from Continuing Operations.....	(236,960)	(129,309)	(35,038)
Income (loss) from discontinued operations.....	2,644	(1,480)	7,124
Net Loss	\$ (234,316)	\$ (130,789)	\$ (27,914)

See Notes to the Consolidated Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
	(thousands of dollars, except per share amounts)	
<i>ASSETS</i>		
Current Assets:		
Cash and cash equivalents	\$ 5,031	\$ 2
Accounts receivable, principally customer	511	21,971
Receivables from affiliates, net	27,239	45,383
Inventory	84,223	73,564
Accumulated deferred income taxes	6,037	32,830
Collateral posted under agreement with RRI Energy, Inc.....	14,392	—
Prepayments and other current assets	4,152	1,687
Current assets of discontinued operations.....	—	29,670
Total current assets	<u>141,585</u>	<u>205,107</u>
Property, Plant and Equipment, net	<u>1,606,235</u>	<u>1,720,944</u>
Other Assets:		
Other intangibles, net.....	159,533	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
Total other assets	<u>162,579</u>	<u>241,688</u>
Total Assets	<u>\$ 1,910,399</u>	<u>\$ 2,167,739</u>
<i>LIABILITIES AND STOCKHOLDER'S EQUITY</i>		
Current Liabilities:		
Current portion of long-term debt.....	\$ 404,403	\$ 12,531
Accounts payable, principally trade.....	37,915	47,860
Accrued interest payable.....	7,996	7,996
Other taxes payable	10,758	13,276
Derivatives liabilities	7,679	69,468
Revolving credit facility with RRI Energy, Inc.	294,796	—
Other.....	7,845	16,512
Current liabilities of discontinued operations	1,283	4,486
Total current liabilities	<u>772,675</u>	<u>172,129</u>
Other Liabilities:		
Accumulated deferred income taxes	70,888	139,218
Benefit obligations.....	51,869	62,377
Taxes payable to RRI Energy, Inc. and related accrued interest.....	11,952	87,408
Other.....	13,160	9,972
Long-term liabilities of discontinued operations	3,542	3,542
Total other liabilities	<u>151,411</u>	<u>302,517</u>
Revolving Credit Facility with RRI Energy, Inc.	<u>—</u>	<u>74,471</u>
Long-term Debt	<u>—</u>	<u>404,403</u>
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.....	(1,216,712)	(982,396)
Accumulated other comprehensive loss.....	(8,115)	(14,525)
Total stockholder's equity	<u>986,313</u>	<u>1,214,219</u>
Total Liabilities and Stockholder's Equity	<u>\$ 1,910,399</u>	<u>\$ 2,167,739</u>

See Notes to the Consolidated Financial Statements

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(thousands of dollars)		
Cash Flows from Operating Activities:			
Net loss	\$ (234,316)	\$ (130,789)	\$ (27,914)
(Income) loss from discontinued operations	(2,644)	1,480	(7,124)
Net loss from continuing operations	(236,960)	(129,309)	(35,038)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Goodwill and long-lived assets impairments.....	120,053	173,570	—
Depreciation and amortization.....	89,001	104,261	137,602
Deferred income taxes	(42,414)	(47,522)	(21,422)
Net changes in energy derivatives	(61,789)	69,468	1,108
Amortization of revaluation of acquired debt.....	(12,530)	(11,409)	(10,505)
Gains on sales of assets and emission allowances, net – primarily affiliate.....	(2,654)	(617)	(7,480)
Other, net.....	(203)	(1,985)	64
Changes in other assets and liabilities:			
Accounts receivable, net	21,460	(21,869)	1,562
Inventory.....	(10,660)	(16,331)	(7,384)
Other current assets	(28)	389	(539)
Other assets.....	(768)	380	4,867
Accounts payable	(3,802)	7,780	(27)
Payable to/receivable from affiliates, net.....	13,480	(5,764)	(14,840)
Collateral returned (posted) under agreement with RRI Energy, Inc.....	—	2,000	(788)
Income taxes payable/receivable.....	(2,675)	18,633	22,938
Long-term taxes payable to RRI Energy, Inc. and related accrued interest.....	(75,456)	22,132	(18,015)
Other current liabilities.....	(3,067)	820	187
Other liabilities	(3,450)	3,281	(3,680)
Net cash provided by (used in) continuing operations from operating activities	(212,462)	167,908	48,610
Net cash provided by (used in) discontinued operations from operating activities.....	30,771	(56)	6,726
Net cash provided by (used in) operating activities	(181,691)	167,852	55,336
Cash Flows from Investing Activities:			
Capital expenditures	(83,834)	(174,287)	(109,212)
Proceeds from sales of emission allowances – affiliates	4,531	164	12,678
Purchases of emission allowances – affiliates	(8,358)	(44,892)	(9,643)
Other, net	75	515	883
Net cash used in continuing operations from investing activities.....	(87,586)	(218,500)	(105,294)
Net cash provided by discontinued operations from investing activities	—	—	520
Net cash used in investing activities.....	(87,586)	(218,500)	(104,774)
Cash Flows from Financing Activities:			
Changes in revolving credit facility with RRI Energy, Inc., net.....	220,325	37,172	24,616
Repayments from RRI Energy, Inc. under term loan	53,981	13,219	25,000
Net cash provided by financing activities	274,306	50,391	49,616
Net Change in Cash and Cash Equivalents	5,029	(257)	178
Cash and Cash Equivalents at Beginning of Period	2	259	81
Cash and Cash Equivalents at End of Period	\$ 5,031	\$ 2	\$ 259
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest paid (net of amounts capitalized) to third parties for continuing operations	\$ 31,778	\$ 34,688	\$ 44,756
Income taxes paid (net of income tax refunds received) for continuing operations.....	758	(15,663)	(2,858)

See Notes to the Consolidated Financial Statements

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)				Discontinued Operations Accumulated Other Comprehensive Loss	Total Stockholder's Equity	Comprehensive Income (Loss)
	Shares	Amount			Deferred Derivative Gains (Losses)	Benefits Actuarial Net Gain (Loss)	Benefits Net Prior Service Costs	Total Accumulated Other Comprehensive Income (Loss)			
Balance, December 31, 2006...	1,000	\$ 1	\$ 2,211,139	\$ (823,693)	\$ 2,711	\$ (5,566)	\$ (3,379)	\$ (6,234)	\$ —	\$ 1,381,213	
Net loss				(27,914)						(27,914)	\$ (27,914)
Deferred gain from cash flow hedges, net of tax of \$0.....					330			330		330	330
Reclassification of net deferred gain from cash flow hedges into net loss, net of tax of \$2 million					(3,041)			(3,041)		(3,041)	(3,041)
Reclassification of benefits net prior service costs into net loss, net of tax of \$0.....							401	401		401	401
Reclassification of benefits actuarial net loss into net loss, net of tax of \$0.....						170		170		170	170
Deferred benefits, net of tax of \$1 million and \$1 million						1,100	642	1,742		1,742	1,742
Comprehensive loss.....											<u>\$ (28,312)</u>
Balance, December 31, 2007...	1,000	\$ 1	\$ 2,211,139	\$ (851,607)	\$ —	\$ (4,296)	\$ (2,336)	\$ (6,632)	\$ —	\$ 1,352,901	
Net loss				(130,789)						(130,789)	\$ (130,789)
Reclassification of benefits net prior service costs into net loss, net of tax of \$0.....							397	397		397	397
Reclassification of benefits actuarial net loss into net loss, net of tax of \$0.....						90		90		90	90
Deferred benefits, net of tax of \$4 million and \$1 million						(7,346)	(1,034)	(8,380)		(8,380)	(8,380)
Comprehensive loss.....											<u>\$ (138,682)</u>
Balance, December 31, 2008...	1,000	\$ 1	\$ 2,211,139	\$ (982,396)	\$ —	\$ (11,552)	\$ (2,973)	\$ (14,525)	\$ —	\$ 1,214,219	

(continued)

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

Background. “Orion Power Holdings” refers to Orion Power Holdings, Inc., a Delaware corporation. “Orion Power” refers to Orion Power Holdings and its consolidated subsidiaries. “RRI Energy” refers to RRI Energy, Inc. and its consolidated subsidiaries. On February 19, 2002, RRI Energy acquired Orion Power through a merger.

Orion Power provides energy, capacity, ancillary and other energy services to wholesale customers in competitive energy markets in the United States through its ownership and operation of and contracting for power generation capacity. The majority of its sales to third parties are through RRI Energy (affiliates). Orion Power owns six electric power plants in Ohio and Pennsylvania with an aggregate net generating capacity of 2,649 megawatts (MW) as of December 31, 2009.

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.

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

(2) Summary of Significant Accounting Policies

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

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

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

Actual results could differ from those estimates.

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 to February 25, 2010, the date the financial statements were issued.

Orion Power’s critical accounting estimates include: (a) fair value of derivative assets and liabilities; (b) recoverability and fair value of long-lived assets; (c) loss contingencies and (d) deferred tax assets, valuation allowances and tax liabilities.

Orion Power is subject to various risks inherent in doing business. See notes 2(c), 2(d), 2(e), 2(f), 2(g), 2(h), 2(m), 2(n), 2(o), 2(p), 3, 4, 5, 6, 7, 8, 10, 11, 12 and 13.

(b) *Principles of Consolidation.*

Orion Power Holdings includes its accounts and those of its wholly-owned subsidiaries in the consolidated financial statements.

(c) **Revenues.**

Power Generation Revenues. Orion Power records gross revenues from the sales of power and other energy services under the accrual method. Electric power and other energy services are sold at market-based prices through related party affiliates, existing power exchanges or third party contracts. Energy sales and services that have been delivered but not billed by period end are estimated. During 2009, 2008 and 2007, Orion Power recorded \$254 million, \$534 million and \$543 million, respectively, in power generation revenues.

Capacity Revenues. Orion Power records gross revenues from the sales of capacity under the accrual method. These sales are sold at market-based prices primarily through the RPM auction market in PJM. Orion Power also sells in the Midwest Independent Transmission System Operator (MISO) market where it enters into agreements with counterparties. The majority of sales are through affiliates. Sales that have been delivered but not billed by period end are estimated. During 2009, 2008 and 2007, Orion Power recorded \$58 million, \$51 million and \$22 million, respectively, in capacity revenues.

(d) **Fair Value Measurements.**

Fair Value Hierarchy and Valuation Techniques. Orion Power applies recurring fair value measurements to its financial assets and liabilities. In determining fair value, Orion Power generally uses a 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 financial 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. Orion Power's cash equivalents are also valued using Level 1 inputs.

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 over-the-counter (OTC) derivative instruments that are transacted in less liquid markets with limited pricing information are included in Level 3, which are coal contracts.

See note 4 for discussion of fair value measurements for some non-financial assets.

Fair Value of Derivative Instruments and Certain Other Assets. Orion Power applies recurring fair value measurements to its financial assets and liabilities. Fair value measurements of its financial assets and liabilities are as follows:

	December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value
	(in millions)			
Total derivative assets	\$ —	\$ —	\$ —	\$ —
Total derivative liabilities	—	—	8	8
Cash equivalents ⁽¹⁾	5	—	—	5

(1) Represent investments in money market funds and are included in cash and cash equivalents in Orion Power's consolidated balance sheet.

	December 31, 2008			
	Level 1	Level 2	Level 3	Total Fair Value
	(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:

	Net Derivatives (Level 3)	
	2009	2008
	(in millions)	
Balance, beginning of period (net asset (liability)).....	\$ (69)	\$ —
Total gains (losses) realized/unrealized:		
Included in earnings ⁽¹⁾	(33)	—
Purchases, issuances and settlements (net)	94	(69)
Transfers in and/or out of Level 3 (net)	—	—
Balance, end of period (net asset (liability)).....	<u>\$ (8)</u>	<u>\$ (69)</u>
Changes in unrealized gains (losses) relating to derivative assets and liabilities still held as of December 31, 2009 and 2008 ⁽¹⁾	(8)	—

(1) Recorded in cost of sales.

Fair Value of Other Financial Instruments. The fair values of cash and accounts receivable and payable approximate their carrying amounts. Values of Orion Power's third-party debt (see note 7) are:

	December 31,			
	2009		2008	
	Carrying Value	Fair Value ⁽¹⁾	Carrying Value	Fair Value ⁽¹⁾
(in millions)				
Fixed rate debt	\$ 405	\$ 403	\$ 417	\$ 397
Total debt	<u>\$ 405</u>	<u>\$ 403</u>	<u>\$ 417</u>	<u>\$ 397</u>

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

See notes 2(e) and 6.

(e) Derivatives and Hedging Activities.

Changes in commodity prices prior to the energy delivery period are inherent in Orion Power's business. Accordingly, Orion Power may enter selective hedges to (a) seek potential value greater than what is available in the spot or day-ahead markets, (b) address operational requirements or (c) seek a specific financial objective. 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. See note 2(d) for discussion on fair value measurements.

A derivative is recognized at fair value in the balance sheet whether or not it is designated as an accounting 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⁽²⁾</u>	<u>Transactions that Financially Settle⁽³⁾</u>
Coal forward and option contracts	Price risk	Coal purchases/sales related to operations	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 of unrealized gains and losses for derivative transactions reclassified to inventory upon settlement.

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

In addition to price 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 2(f) for further discussion of Orion Power's credit policy.

Earnings Volatility from Derivative Instruments. Orion Power may experience volatility in its earnings resulting from contracts receiving accrual accounting treatment while related derivative instruments are marked to market through earnings. As discussed in note 2(a), Orion Power's financial statements include estimates and assumptions made by management throughout the reporting periods and as of the balance sheet dates. It is reasonable that subsequent to the balance sheet date of December 31, 2009, changes, some of which could be significant, have occurred in the inputs to various fair value measures, particularly relating to commodity price movements.

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 during the current reporting period.

Cash Flow Hedges. During 2006, Orion Power de-designated its remaining cash flow hedges; therefore, as of December 31, 2009 and 2008, Orion Power does not have any designated cash flow hedges and there are no deferred derivative gains or losses remaining in accumulated other comprehensive loss.

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.

(f) 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 could incur if its counterparties failed to perform according to their contract terms.

As of December 31, 2009, Orion Power has no 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 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 December 31, 2009 and 2008, Orion Power has posted cash margin deposits of \$0 as collateral for its derivative liabilities receiving mark-to-market accounting treatment and its accounts payable.

(g) Customer Concentration.

Accounts receivable from third party customers as of December 31, 2009 was insignificant. The following table represents accounts receivable balances from third party customers in excess of 10% of the total consolidated accounts receivable balance and the related percentages as of December 31, 2008 (in millions, except percentages):

Customer	December 31, 2008	
	Accounts Receivable Balance	Percentage of Total Accounts Receivable
AEP Service Corporation	\$ 5	21%
Magnum Coal	4	19%
Conemaugh Fuels	3	14%
Consol Energy	3	15%

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

Orion Power computes depreciation using the straight-line method based on estimated useful lives. Depreciation expense was \$79 million, \$80 million and \$87 million during 2009, 2008 and 2007, respectively.

	Estimated Useful Lives (Years)	December 31,	
		2009	2008
(in millions)			
Electric generation facilities	20 — 32	\$ 1,670	\$ 1,831
Land improvements	20 — 32	81	96
Other	3 — 10	10	12
Land		13	13
Assets under construction		331	259
Total		2,105	2,211
Accumulated depreciation		(499)	(490)
Property, plant and equipment, net		\$ 1,606	\$ 1,721

See note 4 for discussion of Orion Power's recoverability assessments of long-lived assets (property, plant and equipment and related intangible assets).

(i) Intangible Assets and Amortization Expense.

Goodwill. Orion Power performed its goodwill impairment test annually on April 1 and when events or changes in circumstances indicated that the carrying value may not have been recoverable. During 2008, Orion Power impaired its remaining goodwill. See note 5.

Other Intangibles. Orion Power recognizes specifically identifiable intangible assets, including emission allowances, when specific rights and contracts are acquired. Orion Power has no intangible assets with indefinite lives recorded as of December 31, 2009 and 2008. See note 4 for discussion of Orion Power's recoverability assessments of long-lived assets (property, plant and equipment and related intangible assets).

(j) Capitalization of Interest Expense.

Orion Power capitalizes interest on capital projects greater than \$10 million and under development for one year or more. During 2009, 2008 and 2007, Orion power capitalized \$16 million, \$13 million and \$3 million of interest expense, respectively, relating primarily to environmental capital expenditures for SO₂ emission reductions at the Cheswick plant.

(k) Income Taxes.

Federal. Orion Power is included in the consolidated federal income tax returns of RRI Energy and calculates its income tax provision on a separate return basis, whereby RRI Energy pays all federal income taxes on Orion Power's behalf and is entitled to any related tax savings. The difference between Orion Power's current federal income tax expense or benefit, as calculated on a separate return basis, and related amounts paid to/received from RRI Energy, if any, are recorded to (a) income taxes payable to RRI Energy, Inc. if Orion Power has cumulative taxable income on a separate return basis or (b) deferred tax assets if Orion Power has cumulative taxable losses on a separate return basis. Deferred federal income taxes reflected on Orion Power's consolidated balance sheet will ultimately be settled with RRI Energy. See notes 3 and 11.

State. Orion Power is included in the consolidated state income tax returns of RRI Energy. It calculates its state provision, related payables or receivables and deferred state income taxes on a separate return basis and settles the related assets and liabilities with the governmental entity or RRI Energy based on the tax status of the applicable entities. See note 11.

(l) Cash and Cash Equivalents.

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

(m) 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 2009, 2008 and 2007, Orion Power recorded \$58 million, \$1 million and \$0, respectively, for lower of average cost or market valuation adjustments in cost of sales. Orion Power values materials and supplies at average cost. Orion Power removes these inventories when they are used for repairs, maintenance or capital projects. Sales of fuel inventory are classified as operating activities in the consolidated statement of cash flows.

	December 31,	
	2009	2008
	(in millions)	
Materials and supplies, including spare parts	\$ 36	\$ 24
Coal	47	49
Heating oil	1	1
Total inventory	<u>\$ 84</u>	<u>\$ 74</u>

(n) Environmental Costs.

Orion Power expenses environmental expenditures related to existing conditions that do not have future economic benefit. Orion Power capitalizes environmental expenditures for which there is a future economic benefit. Orion Power records liabilities for expected future costs, on an undiscounted basis, related to environmental assessments and/or remediation when they are probable and can be reasonably estimated. See note 13.

(o) **Asset Retirement Obligations.**

Orion Power's asset retirement obligations relate to future costs associated primarily with coal ash disposal site closures. Changes in asset retirement obligations, classified in other long-term liabilities, are:

	2009		2008
	(in millions)		
Balance, beginning of period.....	\$ 7		\$ 8
Revisions in estimated cash flows	6	(1)	—
Payments	(3)		(1)
Accretion expense.....	1		—
Balance, end of period.....	<u>\$ 11</u>		<u>\$ 7</u>

(1) Primarily relates to changes in timing of expected closures and higher estimated costs.

As of December 31, 2009 and 2008, Orion Power has \$3 million and \$2 million, respectively, (classified in other long-term assets) on deposit with the state of Pennsylvania to guarantee its obligation related to future closures of coal ash disposal landfill sites. See note 13.

(p) **Repair and Maintenance Costs for Power Generation Assets.**

Orion Power expenses repair and maintenance costs as incurred.

(q) **New Accounting Pronouncements Adopted.**

FASB Codification. The Financial Accounting Standards Board's Accounting Standards Codification became effective for Orion Power in the third quarter of 2009. The Codification brings together in one place all authoritative GAAP except for rules, regulations and interpretative releases of the Securities and Exchange Commission which are also authoritative GAAP for Orion Power. This change did not materially affect Orion Power's consolidated financial statements.

Measuring Liabilities at Fair Value. This guidance provides clarification for measuring liabilities at fair value when there may be a lack of observable market information and requires an entity under those circumstances to employ techniques that use (a) the quoted price of the identical liability when traded as an asset, (b) quoted prices for similar liabilities or similar liabilities when traded as assets or (c) another valuation technique consistent with the fair value measurement principles such as an income approach or a market approach. This change did not impact Orion Power's consolidated financial statements. See note 2(d).

Disclosures about Plan Assets. This guidance requires enhanced disclosures regarding investment policies and strategies for Orion Power's benefit plan assets as well as information about fair value measurements of plan assets. See note 8.

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. This guidance provides direction on how to determine the fair value of certain assets and liabilities 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 guidance did not have a significant impact on Orion Power's consolidated financial statements since the markets in which it purchases and sells commodities and derivative instruments are not distressed. See notes 2(d) and 6.

(r) **New Accounting Pronouncement Not Yet Adopted.**

Improving Disclosures about Fair Value Measurements. Effective for the 2010 financial statements, this guidance provides for disclosures of significant transfers in and out of Levels 1 and 2. In addition, it clarifies existing disclosure requirements regarding inputs and valuation techniques as well as the appropriate level of disaggregation for fair value measurements disclosures. Effective for the 2011 financial statements, this guidance provides for disclosures of activity on a gross basis within the Level 3 reconciliation. These changes will only affect Orion Power's disclosures.

(3) 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 are 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:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(in millions)	
Allocated or charged by RRI Energy.....	\$ 50	\$ 57	\$ 65

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(in millions)	
Sales to RRI Energy under various commodity agreements ⁽¹⁾	\$ 303	\$ 571	\$ 543
Purchases from RRI Energy under various commodity agreements ⁽²⁾	2	2	1
Gains on coal sales to RRI Energy.....	— ⁽³⁾	6 ⁽³⁾	6 ⁽³⁾
Sales of emission allowances to RRI Energy ⁽⁴⁾	5	—	13
Gains on emission allowances sales to RRI Energy ⁽⁵⁾	3	—	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 RRI Energy sold the emission allowances to third parties.

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

Orion MidWest Revolving Credit Facility with 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. The \$75 million Orion MidWest revolving credit facility was increased throughout 2009 and was increased to \$325 million in January 2010 and matures in June 2010. Orion MidWest expects to terminate the facility and participate in RRI Energy's intercompany cash management arrangement. The credit facility bears interest at the LIBOR rate plus 2.875% and is payable monthly. Orion Power has incurred interest expense related to the revolving credit facility of \$3 million, \$2 million and \$3 million during 2009, 2008 and 2007, respectively.

Note Receivable from RRI Energy. In March 2006, Orion Power made a term loan to RRI Energy for \$92 million. The note bore interest at ten percent through September 2007 and interest was payable monthly. Effective October 2007, the interest rate was changed to 7.5 percent. During 2009, RRI Energy paid off the remaining amounts of \$54 million. During 2008 and 2007, RRI Energy paid down \$13 million and \$25 million, respectively, on this loan. Orion Power earned interest income related to this term loan of \$1 million, \$5 million and \$8 million during 2009, 2008 and 2007, respectively.

Secured Revolving Letter of Credit Facility Agreement with RRI Energy. RRI Energy posts letters of credit and cash collateral on behalf of Orion Power. During 2006, RRI Energy and Orion Power entered into a Secured Revolving Letter of Credit Facility Agreement whereby Orion Power agreed to provide 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, Orion Power may ask for the return of the cash collateral. Orion Power reimburses RRI Energy for the costs of the letters of credit and earns interest income on the collateral posted. During 2009, RRI Energy replaced all letters of credit issued under the agreement with cash collateral and Orion Power directed RRI Energy to retain its cash collateral. As of December 31, 2008, RRI Energy posted letters of credit totaling \$14 million on behalf of Orion Power. As of December 31, 2009 and 2008, Orion Power has provided cash collateral of \$14 million to RRI Energy. During 2009, 2008 and 2007, the letters of credit costs, recorded in interest expense, were insignificant and related interest income was \$0, \$0 and \$1 million, respectively.

Commitment Agreement with RRI Energy. On February 8, 2010, RRI Energy and Orion Power entered into an agreement, which, subject to certain terms and conditions, commits RRI Energy to provide either a capital contribution or loan of approximately \$400 million to Orion Power to be used to pay, at maturity, the Orion Power Holdings senior notes due May 1, 2010. See note 7.

Income Taxes. See discussion in note 2(k) regarding Orion Power's policy with respect to income taxes and the long-term taxes payable to RRI Energy, Inc. As of December 31, 2009 and 2008, Orion Power has \$12 million and \$87 million, respectively, recorded as long-term taxes payable to RRI Energy, Inc., which includes accrued interest payable of \$12 million and \$10 million, respectively. Orion Power has incurred interest expense related to this payable of \$1 million, \$4 million and \$6 million during 2009, 2008 and 2007, respectively.

(4) Long-Lived Assets Impairment

Orion Power periodically evaluates the recoverability of our long-lived assets (property, plant and equipment and intangible assets), which involves significant judgment and estimates, when there are certain indicators (see below) that the carrying value of these assets may not be recoverable. As of December 31, 2009, Orion Power had \$1.8 billion of long-lived assets. See notes 2(h) and 5.

Orion Power evaluates its long-lived assets when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Examples of such events or changes in circumstances are:

- a significant decrease in the market price of a long-lived asset
- a significant adverse change in the manner an asset is being used or its physical condition
- an adverse action by a regulator or legislature or an adverse change in the business climate
- an accumulation of costs significantly in excess of the amount originally expected for the construction or acquisition of an asset
- a current-period loss combined with a history of losses or the projections of future losses
- a change in the intent about an asset from an intent to hold to a greater than 50% likelihood that an asset will be sold or disposed of before the end of its previously estimated useful life

When Orion Power believes an impairment condition may have occurred, Orion Power is required to estimate the undiscounted future cash flows associated with a long-lived asset or group of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for long-lived assets that are expected to be held and used. Each plant (including its property, plant and equipment and intangible assets) was determined to be its own group.

The determination of impairment is a two-step process, the first of which involves comparing the undiscounted cash flows to the carrying value of the asset. If the carrying value exceeds the undiscounted cash flows, the fair value of the asset must be determined. The fair value of an asset is the price that would be received from a sale of the asset in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and are used as the basis for the measurement, when available. In the absence of quoted prices for identical or similar assets, fair value is estimated using various internal and external valuation methods. These methods include discounted cash flow analyses and reviewing available information on comparable transactions.

Key Assumptions. The following summarizes some of the most significant estimates and assumptions used in evaluating Orion Power's plant level undiscounted cash flows. The ranges for the fundamental view assumptions are to account for variability by year and region.

	December 31, 2009
<u>Undiscounted Cash Flow Scenarios Weightings:</u>	
5-year market forecast with escalation ⁽¹⁾⁽²⁾	50%
5-year market forecast with fundamental view ⁽¹⁾	50%
<u>Range of Assumptions in Fundamental View:</u>	
Demand for power growth per year	1%-2%
After-tax rate of return on new construction ⁽³⁾	7.5%-8.5%
Spread between natural gas and coal prices, \$/MMBTU ⁽⁴⁾	\$3-\$5

- (1) For each scenario, the first five years of cash flows are the same.
- (2) Orion Power assumed an annual 2.5% escalation percentage beyond year five.
- (3) The low to mid part of the range represents natural gas-fired plants' required returns and the mid to high part of the range represents coal-fired and nuclear plants' required returns.
- (4) Natural gas and coal prices are prior to transportation costs.

Orion Power estimates the undiscounted cash flows of its plants based on a number of subjective factors, including: (a) appropriate weighting of undiscounted cash flow scenarios, as shown in the table above, (b) forecasts of future power generation margins, (c) estimates of the future cost structure, (d) environmental assumptions, (e) time horizon of cash flow forecasts and (f) estimates of terminal values of plants, if necessary, from the eventual disposition of the assets.

Under the 5-year market forecast with escalation scenario, Orion Power uses the following data: (a) forward market curves for commodity prices as of December 18, 2009 for the first five years, (b) cash flow projections through the plant's estimated remaining useful life and (c) escalation factor of cash flows of 2.5% per year after year five.

Under the 5-year market forecast with fundamental view scenario, Orion Power models all of its plants and those of others in the regions in which it operates, using these assumptions: (a) forward market curves for commodity prices as of December 18, 2009 for the first five years; (b) ranges shown in the table above used in developing the fundamental view beyond five years; (c) the markets in which Orion Power operates will continue to be deregulated and earn margins based on forward or projected market prices; (d) projected market prices for energy and capacity will be set by the forecasted available supply and level of forecasted demand—new supply will enter markets when market prices and associated returns, including any assumed subsidies for renewable energy, are sufficient to achieve minimum return requirements; (e) minimum return requirements on future construction of new generation facilities, as shown in the table above, will likely be driven or influenced by utilities, which Orion Power expects will have a lower cost of capital than merchant generators; (f) various ranges of environmental regulations, including those for SO₂, NO_x and greenhouse gas emissions; and (g) cash flow projections through the plant's estimated remaining useful life.

Fair Value. Generally, fair value will be determined using an income approach or a market-based approach. Under the income approach, the future cash flows are estimated as described above and then discounted using a risk-adjusted rate. Under a market-based approach, Orion Power may also consider prices of similar assets, consult with brokers or employ other valuation techniques.

The following are key assumptions used in Orion Power's fair value analyses for its plant for which the undiscounted cash flows did not exceed the net book value of the long-lived assets.

	New Castle
<u>Valuation approach weightings:</u>	
Income approach.....	100%
Market-based approach.....	0%
Risk-adjusted discount rate for the estimated cash flows	15%

Orion Power only used the income approach as it believes no relevant market data exists for the New Castle plant. The discount rate reflects the uncertainty of the plant's cash flows and its inability to support meaningful amounts of debt, and was determined considering factors such as the potential for future capacity and power purchase agreement revenues and regulatory, commodity and macroeconomic conditions.

Orion Power determined that its New Castle plant, which consists of property, plant and equipment, was impaired by \$120 million as of December 31, 2009. This impairment was primarily due to the expected levels of low profitability given that the plant would likely require significant environmental capital expenditures in the future under existing and likely environmental regulations. Orion Power believes the remaining net book value of \$44 million for New Castle represents its best estimate of fair value as of December 31, 2009.

Certain disclosures are required about nonfinancial assets and liabilities measured at fair value on a nonrecurring basis. This applies to Orion Power's long-lived assets for which it was required to determine fair value. A fair value hierarchy exists for inputs used in measuring fair value that maximizes the use of observable inputs (Level 1 or Level 2) and minimizes the use of unobservable inputs (Level 3) by requiring that the observable inputs be used when available. See note 2(d) for further discussion about the three levels. These assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Orion Power's assessment of the significance of a particular input to the fair value measurement requires judgment and affects the valuation of fair value and the asset's placement within the fair value hierarchy levels.

	December 31, 2009			2009 Impairment Charges
	Level 1	Level 2	Level 3 (in millions)	
New Castle property, plant and equipment	\$ —	\$ —	\$ 44	\$ 120

Effect if Different Assumptions Used. The estimates and assumptions used to determine whether long-lived assets are recoverable or whether impairment exists are subject to high degree of uncertainty. Different assumptions as to power prices, fuel costs, the future cost structure, environmental assumptions and remaining useful lives and ultimate disposition values of the plants would result in estimated future cash flows that could be materially different than those considered in the recoverability assessments as of December 31, 2009 and could result in having to estimate the fair value of other plants.

Use of a different risk-adjusted discount rate would result in fair value estimates for the New Castle plant for which Orion Power recorded an impairment in 2009 that could be materially greater than or less than the fair value estimates as of December 31, 2009. Any future fair value estimates for our New Castle long-lived assets that are greater than the fair value estimate as of December 31, 2009 will not result in reversal of the 2009 impairment charge.

(5) Intangible Assets

(a) Goodwill.

The following table shows goodwill and the changes for 2008 (in millions):

As of January 1, 2008.....	\$ 174
Impairment	(174)
As of December 31, 2008.....	<u>\$ —</u>

As of December 31, 2009 and 2008, Orion Power had \$26 million and \$30 million, respectively, of goodwill that is deductible for United States income tax purposes in future periods.

Orion Power tested goodwill for impairment on an annual basis in April (through 2008), and more often if events or circumstances indicated there may have been impairment. Orion Power continually assessed whether any indicators of impairment existed, which required a significant amount of judgment. Such indicators may have included a sustained significant decline in RRI Energy, Inc.'s share price and market capitalization; a decline in expected future cash flows; a significant adverse change in legal factors or in the business climate; unanticipated

competition; overall weakness in the industry; and slower growth rates. Any adverse change in these factors could have had significant impact on the recoverability of goodwill and could have had a material impact on the consolidated financial statements.

During April 2008, Orion Power tested goodwill for impairment and determined that no impairment existed.

During the third and fourth quarters of 2008, given adverse changes in the business climate and the credit markets, RRI Energy, Inc.'s market capitalization being lower than its book value during all of the fourth quarter and extending into 2009, RRI Energy's review of strategic alternatives to enhance stockholder value and reductions in the expected near-term cash flows from operations, Orion Power reviewed its goodwill for impairment. Orion Power concluded that no goodwill impairment occurred as of September 30, 2008. As discussed below, as of December 31, 2008, Orion Power concluded that its goodwill of \$174 million was impaired.

Goodwill was reviewed for impairments based on a two-step test. In the first step, Orion Power compared its fair value with its net book value. Orion Power applied judgment in determining the fair value for purposes of performing the goodwill impairment test because quoted market prices for its business were not available. In estimating the fair value, Orion Power used a combination of an income approach and a market-based approach.

- Income approach — Orion Power discounted its expected cash flows. The discount rate used represented the estimated weighted average cost of capital, which reflected the overall level of inherent risk involved in its operations and cash flows and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of its model, Orion Power applied a terminal value multiple to the final year EBITDA.
- Market-based approach — Orion Power used the guideline public company method, which focused on comparing its risk profile and growth prospects to select reasonably similar/guideline publicly traded companies. Orion Power also used a public transaction method, which focused on exchange prices in actual transactions as an indicator of fair value.

In weighting the results of the various valuation approaches, prior to the fourth quarter of 2008, Orion Power placed more emphasis on the income approach, using management's future cash flow projections and risk-adjusted discount rates. As Orion Power's earnings outlook declined, its earnings variability increased and RRI Energy, Inc.'s market capitalization declined significantly in 2008, Orion Power increased the weighting of the estimates of fair value determined by the market-based approaches. Further, the aggregate estimated fair value of RRI Energy's reporting units was compared to its total market capitalization, adjusted for a control premium. A control premium is added to the market capitalization to reflect the value that existed with having control over an entire entity.

If the estimated fair value was higher than the recorded net book value, no impairment was considered to exist and no further testing was required. However, if the estimated fair value was below the recorded net book value, a second step must be performed to determine the goodwill impairment required, if any. In the second step, the estimated fair value from the first step was used as the purchase price in a hypothetical acquisition, which was then allocated to the entity's assets and liabilities in accordance with purchase accounting rules. The residual amount of goodwill that resulted from this hypothetical purchase price allocation was compared to the recorded amount of goodwill for the entity, and the recorded amount was written down to the hypothetical amount, if lower.

Orion Power estimated its fair value based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches, as discussed above, (b) projections about the future power generation margins, (c) estimates of future cost structure, (d) environmental assumptions, (e) risk-adjusted discount rates for estimated cash flows, (f) selection of peer group companies for the public company market approach, (g) required level of working capital, (h) assumed EBITDA multiple for terminal values and (i) time horizon of cash flow forecasts.

As part of the process, Orion Power developed 15-year forecasts of earnings and cash flows, assuming that demand for power grows at the rate of two percent a year. It modeled all of its power generation facilities and those of others in the regions in which Orion Power operates, using these assumptions: (a) the markets in which Orion Power operates will continue to be deregulated and earn a market return; (b) there will be a recovery in electricity margins over time such that companies building new generation facilities can earn a reasonable rate of return on their investment, which implies that margins and therefore cash flows in the future would be better than they are

today because market prices will need to rise high enough to provide an incentive for new plants to be built, and the entire market will realize the benefit of those higher margins and (c) the long-term returns on future construction of new generation facilities will likely be driven by integrated utilities, which Orion Power expects will have a lower cost of capital than merchant generators, which implies that the revenues and margins described in (b) above will be at the level of return required for a regulated entity instead of a deregulated company. Orion Power assumed that the after-tax rate of return on new construction was 7.5%.

Orion Power's assumptions for each of its goodwill impairment assessments during 2007 and 2008:

	<u>April 2007</u>	<u>April 2008</u>	<u>September 2008</u>	<u>December 2008</u>
<u>Income approach assumptions</u>				
EBITDA multiple for terminal values ⁽¹⁾	8.0	8.0	7.0	7.0
Risk-adjusted discount rate for estimated cash flows ⁽²⁾ ..	10.0%	10.5%	11.5%	13.0%
<u>Market-based approach</u>				
EBITDA multiple for publicly traded company	8	8	5	6
<u>Valuation approach weightings</u> ⁽³⁾				
Income approach.....	70%	60%	80%	25%
Market-based approach.....	30%	40%	20%	75%

(1) Changed primarily due to market factors affecting peer company comparisons.

(2) Increased primarily due to capital structure of peer company comparisons and increased required rate of return on debt and equity capital of peer companies.

(3) Changed primarily due to increased focus on market-based approaches. See discussion above.

Based on Orion Power's analysis, it concluded that it did not pass the first step as of December 31, 2008, primarily due to lower expected cash flows due to the adverse business climate, significantly lower expected exchange transaction values due to credit market disruptions which would make it difficult for transactions to occur and increase the price of those transactions and significantly lower valuations for the peer companies. In addition, when RRI Energy compared the aggregate of its fair value estimates of both reporting units to its market capitalization, including a control premium, it determined that the market participants' views of its fair value had also declined significantly.

Orion Power then performed the second step of the impairment test, which required an allocation of the fair value as the purchase price in a hypothetical acquisition of the entity. The significant hypothetical purchase price allocation adjustments made to the assets and liabilities of Orion Power consisted of the following:

- Adjusting the carrying value of property, plant and equipment to values that would be expected in the current credit and market environment
- Adjusting the carrying value of emission allowances, which then traded at amounts significantly higher than book value
- Adjusting the carrying value of debt, which had a lower fair value than book value
- Adjusting deferred income taxes for changes in the balances listed above

After making these hypothetical adjustments, no residual value remained for a goodwill allocation resulting in the impairment of Orion Power's goodwill net carrying amount of \$174 million as of December 31, 2008.

(b) Other Intangibles.

	Remaining Weighted Average Amortization Period (Years)	December 31,			
		2009		2008	
		Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
(in millions)					
SO ₂ emission allowances ⁽¹⁾⁽²⁾	— ⁽¹⁾	\$ 61 ⁽³⁾	\$ (6) ⁽³⁾	\$ 68 ⁽⁴⁾	\$ (12) ⁽⁴⁾
NO _x emission allowances ⁽¹⁾⁽⁵⁾	— ⁽¹⁾	105 ⁽³⁾	— ⁽³⁾	109 ⁽⁴⁾	— ⁽⁴⁾
Total.....		\$ 166	\$ (6)	\$ 177	\$ (12)

- (1) SO₂ is sulfur dioxide and NO_x is nitrogen oxides. Amortized to amortization expense on a units-of-production basis. As of December 31, 2009, Orion Power has recorded (a) SO₂ emission allowances through the 2039 vintage year and (b) NO_x emission allowances through the 2039 vintage year.
- (2) During 2009, 2008 and 2007, Orion Power purchased \$15 million, \$18 million and \$28, respectively, of SO₂ emission allowances from affiliates.
- (3) During 2009, Orion Power wrote off the fully amortized carrying amount and accumulated amortization for SO₂ and NO_x emission allowances surrendered of \$20 million and \$4 million, respectively.
- (4) During 2008, Orion Power wrote off the fully amortized carrying amount and accumulated amortization for SO₂ and NO_x emission allowances surrendered of \$110 million and \$76 million, respectively.
- (5) During 2009, 2008 and 2007, Orion Power purchased \$0, \$5 million and \$4 million, respectively, of NO_x emission allowances from affiliates.

	2009	2008	2007
(in millions)			
Amortization of emission allowances.....	\$ 10	\$ 24	\$ 50

Estimated amortization expense based on Orion Power's intangibles as of December 31, 2009 for the next five years is (in millions):

2010.....	\$ 7	(1)
2011.....	7	(1)
2012.....	7	(1)
2013.....	7	(1)
2014.....	7	(1)

- (1) These amounts do not include expected amortization expense of emission allowances not purchased as of December 31, 2009.

(6) Derivatives and Hedging Activities

Orion Power uses derivative instruments to manage operational or market constraints and to increase return on its generation assets. See note 2(e).

As of December 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.....	\$ —	\$ —	\$ (8)	\$ —	\$ (8)
Total derivatives	\$ —	\$ —	\$ (8)	\$ —	\$ (8)

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

Commodity	Unit ⁽¹⁾	Notional Volumes	
		Current	Long-term
(in millions)			
Coal	MMBTU	54	141

(1) MMBTU is million British thermal units.

(2) For 2011 through 2013, Orion Power has committed to purchase volumes of 141 million MMBTU (which are included in this table) for which the contract prices are subject to negotiation and agreement prior to the beginning of each year. No coal derivative contracts for the 2011 to 2013 delivery periods have been priced as of December 31, 2009. See note 12(c).

The income (loss) associated with Orion Power's energy derivatives during 2009 is:

Derivatives Not Designated as Hedging Instruments	Revenues	Cost of Sales
(in millions)		
<u>Non-Trading Commodity Contracts:</u>		
Unrealized.....	\$ —	\$ 62
Realized ⁽¹⁾⁽²⁾	—	—
Total non-trading	<u>\$ —</u>	<u>\$ 62</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.

(7) Debt

	December 31,					
	2009			2008		
	Weighted Average Stated Interest Rate ⁽¹⁾	Long-term	Current	Weighted Average 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⁾		—	5		4	13
Total debt.....		<u>\$ —</u>	<u>\$ 405</u>		<u>\$ 404</u>	<u>\$ 13</u>

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

(2) Debt acquired by RRI Energy in the Orion Power acquisition was adjusted to fair value as of the acquisition date. Included in interest expense is amortization of \$12 million, \$11 million and \$11 million for valuation adjustments for debt during 2009, 2008 and 2007, respectively.

Debt maturities as of December 31, 2009 are (in millions):

2010	\$ 400
2011	—
2012	—
2013	—
2014	—
2015 and thereafter	—
	<u>\$ 400</u>

Orion Power Holdings Senior Notes. These notes were recorded at a fair value of \$479 million upon the acquisition by RRI Energy. The \$79 million premium is being amortized to interest expense over the life of the notes. The senior notes are senior unsecured obligations of Orion Power Holdings, are not guaranteed by any of Orion Power Holdings' subsidiaries and are non-recourse to RRI Energy. The senior notes have covenants that

restrict the ability of Orion Power Holdings and its subsidiaries to, among other actions, (a) pay dividends or pay subordinated debt, (b) incur indebtedness or issue preferred stock, (c) make investments, (d) divest assets, (e) encumber its assets, (f) enter into transactions with affiliates, (g) engage in unrelated businesses and (h) engage in sale and leaseback transactions. As of December 31, 2009, conditions under these covenants that allow the payment of dividends by Orion Power Holdings were not met. As of December 31, 2009, the adjusted net assets of Orion Power that are restricted to RRI Energy, Inc. are \$1.3 billion.

Orion Power plans to fund the \$400 million debt obligation due May 1, 2010 with cash from RRI Energy. See note 3 for RRI Energy's commitment regarding this funding and other debt transactions with affiliates.

(8) Pension and Postretirement Benefits

Benefit Plans. Orion Power sponsors multiple defined benefit pension plans. Orion Power provides subsidized postretirement benefits to some bargaining employees but generally does not provide them to non-bargaining employees.

Orion Power's benefit obligations and funded status are:

	Pension		Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
Change in Benefit Obligations				
Beginning of year	\$ 65	\$ 60	\$ 33	\$ 33
Service cost.....	2	3	—	—
Interest cost.....	4	3	1	2
Benefits paid.....	(3)	(2)	(1)	—
Plan amendments/adjustments.....	1	1	(3)	2
			(1)	
Actuarial (gain) loss.....	3	—		(4)
Special termination benefits	2	—	1	—
End of year.....	<u>\$ 74</u>	<u>\$ 65</u>	<u>\$ 30</u>	<u>\$ 33</u>
Change in Plans' Assets				
Beginning of year	\$ 34	\$ 46	\$ —	\$ —
Employer contributions	13	3	1	—
Benefits paid.....	(3)	(2)	(1)	—
Actual investment return	8	(13)	—	—
End of year.....	<u>\$ 52</u>	<u>\$ 34</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status.....	\$ (22)	\$ (31)	\$ (30)	\$ (33)

Amounts recognized in the consolidated balance sheets are:

	Pension		Postretirement Benefits	
	December 31,		December 31,	
	2009	2008	2009	2008
	(in millions)			
Current liabilities	\$ —	\$ —	\$ (2)	\$ (1)
Noncurrent liabilities	(22)	(31)	(28)	(32)
Net amount recognized	<u>\$ (22)</u>	<u>\$ (31)</u>	<u>\$ (30)</u>	<u>\$ (33)</u>

The accumulated benefit obligation for all pension plans was \$72 million and \$59 million as of December 31, 2009 and 2008, respectively. All pension plans have accumulated benefit obligations in excess of plan assets.

Net periodic benefit costs are:

	Pension			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
	(in millions)					
Service cost	\$ 2	\$ 3	\$ 3	\$ —	\$ —	\$ —
Interest cost	4	3	3	1	2	2
Expected return on plan assets.....	(3)	(3)	(3)	—	—	—
Adjustment to annual expense.....	—	—	—	—	2	—
Net amortization	3	1	1	—	—	—
Net curtailments (gain) loss.....	5	—	—	(3)	—	—
Special termination benefits	2	—	—	1	—	—
Net periodic benefit costs	<u>\$ 13</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ (1)</u>	<u>\$ 4</u>	<u>\$ 2</u>

As of December 31, 2009, \$0.8 million and \$(0.2) million of net actuarial loss and net prior service costs, respectively, in accumulated other comprehensive loss are expected to be recognized in net periodic benefit cost during the next 12 months.

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

	Pension		Postretirement Benefits	
	December 31,		December 31,	
	2009	2008	2009	2008
Discount rate.....	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	3.0%	3.0%	N/A	N/A

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

	Pension			Postretirement Benefits		
	2009	2008	2007	2009	2008	2007
Discount rate.....	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Rate of compensation increase	3.0%	3.0%	3.0%	N/A	N/A	N/A
Expected long-term rate of return on plan assets.....	7.5%	7.5%	7.5%	N/A	N/A	N/A

The expected long-term rate of return on assets is determined based on third party capital market asset models. Generally, a time horizon of greater than five years is assumed and, therefore, interim volatility in returns is regarded with the appropriate perspective. Models assume that future returns are based on long-term, historical performance as adjusted for any differences in expected inflation, current dividend yields, expected corporate earnings growth and risk premiums based on the expected volatility of each asset category. The adjusted historical returns are weighted by the long-term pension plan asset allocation targets. Orion Power's investment manager and actuarial consultant assist with the analysis.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Health care cost trend rate assumed for next year ⁽¹⁾	8.0%	7.9%	8.3%
Rate to which the cost trend rate is assumed to gradually decline (ultimate trend rate) ⁽¹⁾	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate.....	2015	2015	2015

(1) Represents blended rate for medical and prescription drug costs.

Assumed health care cost trend rates can have a significant effect on the amounts reported for Orion Power's health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of December 31, 2009:

	<u>One-Percentage Point</u>	
	<u>Increase</u>	<u>Decrease</u>
	(in millions)	
Effect on service and interest cost	\$ —	\$ —
Effect on accumulated postretirement benefit obligation	3	(3)

Plans' Assets. RRI Energy's Benefits Committee establishes the overall investment policy for the plans' assets and appoints an investment manager to implement it. Plans' assets are managed solely in the interest of the plans' participants and their beneficiaries and are invested with the objective of earning the necessary returns to meet the time horizons of the accumulated and projected retirement benefit obligations. Plan asset diversification across asset types, fund strategies, and fund managers is intended to manage risk to a reasonable and prudent level. The investment manager may use derivative securities for diversification, risk-control and return enhancement purposes but may not use them for the purpose of leverage.

Orion Power's pension weighted average asset allocations and target allocation by asset category are:

	<u>Percentage of Plan Assets</u>		<u>Target Allocation⁽¹⁾</u>
	<u>as of December 31,</u>		<u>2010</u>
	<u>2009</u>	<u>2008</u>	
Domestic equity securities.....	34%	36%	35%
International equity securities.....	26	21	25
Global equity securities	10	9	10
Debt securities	30	34	30
Total.....	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) RRI Energy's Benefits Committee has determined an allowable range for each category; these percentages represent the mid-point for each respective range.

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

Asset Class	Index	Weight
Domestic equity securities.....	Dow Jones U.S. Total Stock Market Index	40%
International equity securities.....	MSCI All Country World Ex-U.S. Index	20
Global equity securities.....	MSCI All Country World Index	10
Debt securities.....	Barclays Capital Aggregate Bond Index	30
Total.....		100%

RRI Energy's Benefits Committee reviews plan asset performance each quarter by comparing the actual quarterly returns of each asset class to its related benchmark.

Fair Value Measurements. The fair value hierarchy establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value into three categories: quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). See note 2(d) for further discussion about the three levels.

The plans' assets are invested in open-end mutual funds. The shares of the mutual funds held by the plans are valued at quoted market prices in an active market (which are based on the redeemable net asset value of the fund) and are classified as Level 1. The asset allocations below are based on the nature of the underlying mutual fund assets.

As of December 31, 2009, the allocated pension plans' investments measured at fair value are as follows:

	Level 1	Level 2	Level 3
	(in millions)		
Domestic equity securities ⁽¹⁾	\$ 18	\$ —	\$ —
International equity securities ⁽²⁾	13	—	—
Global equity securities ⁽³⁾	5	—	—
Debt securities ⁽⁴⁾	16	—	—
Total.....	\$ 52	\$ —	\$ —

- (1) Comprised of large cap stocks.
- (2) Comprised of large cap foreign stocks.
- (3) Comprised of both foreign and domestic multi-cap stocks.
- (4) Comprised of intermediate-term, investment grade bonds.

Cash Obligations. Orion Power expects pension cash contributions to approximate \$7 million during 2010. Expected benefit payments for the next ten years, which reflect future service as appropriate, are:

	Pension	Postretirement Benefits
	(in millions)	
2010.....	\$ 4	\$ 2
2011.....	4	2
2012.....	4	2
2013.....	4	2
2014.....	4	2
2015-2019.....	27	12

(9) Savings Plan

Orion Power's employees participate in RRI Energy's employee savings plans under Sections 401(a) and 401(k) of the Internal Revenue Code. Orion Power's savings plan benefit expense, including matching and discretionary contributions, was \$2 million during 2009, 2008 and 2007.

(10) Collective Bargaining Agreements

As of December 31, 2009, approximately 75% of Orion Power’s employees are subject to collective bargaining agreements. Orion Power’s collective bargaining agreements expire at various intervals beginning in 2013.

(11) Income Taxes

(a) Summary.

Orion Power’s income tax expense (benefit) is:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(in millions)		
Current:			
Federal.....	\$ (77)	\$ 18	\$ —
State.....	(2)	3	(4)
Total current.....	<u>(79)</u>	<u>21</u>	<u>(4)</u>
Deferred:			
Federal.....	(45)	(56)	(18)
State.....	3	9	(4)
Total deferred.....	<u>(42)</u>	<u>(47)</u>	<u>(22)</u>
Income tax benefit from continuing operations.....	<u>\$ (121)</u>	<u>\$ (26)</u>	<u>\$ (26)</u>
Income tax benefit from discontinued operations.....	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ —</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Federal statutory rate.....	(35)%	(35)%	(35)%
Additions (reductions) resulting from:			
State income taxes, net of federal income taxes.....	— ⁽¹⁾	5 ⁽²⁾	(9)
Goodwill impairment.....	—	14	—
Other, net.....	1	(1)	2
Effective rate.....	<u>(34)%</u>	<u>(17)%</u>	<u>(42)%</u>

(1) Of this percentage, \$23 million (6%) relates to an increase in Orion Power’s state valuation allowances.

(2) Of this percentage, \$18 million (11%) relates to an increase in Orion Power’s state valuation allowances.

	December 31,	
	2009	2008
	(in millions)	
Deferred tax assets:		
Current:		
Derivative liabilities, net.....	\$ 3	\$ 27
Employee benefits	1	1
Valuation allowances.....	—	(1)
Other	2	5
Total current deferred tax assets	<u>6</u>	<u>32</u>
Long-term:		
Employee benefits	20	21
Net operating loss carryforwards.....	69	35
Other	5	7
Valuation allowances.....	(43)	(20)
Total long-term deferred tax assets.....	<u>51</u>	<u>43</u>
Total deferred tax assets.....	<u>\$ 57</u>	<u>\$ 75</u>
Deferred tax liabilities:		
Long-term:		
Depreciation and amortization.....	\$ 122	\$ 175
Total long-term deferred tax liabilities	<u>122</u>	<u>175</u>
Total deferred tax liabilities	<u>\$ 122</u>	<u>\$ 175</u>
Accumulated deferred income taxes, net	<u>\$ (65)</u>	<u>\$ (100)</u>

(b) **Tax Attribute Carryovers.**

	December 31, 2009	Statutory Carryforward Period	Expiration Years
	(in millions)	(in years)	
Net operating loss carryforwards:			
Federal	\$ 49	20	2029
State	806	7 to 20	2018 through 2029

(c) **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 Orion Power's recent history of earnings and losses, future reversals of temporary differences and identification of other sources of future taxable income, including the identification of tax planning strategies in certain situations.

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

	<u>State</u>
As of January 1, 2007	\$ 5
Changes in valuation allowances	<u>(2)</u>
As of December 31, 2007	3
Changes in valuation allowances	<u>18</u> ⁽¹⁾
As of December 31, 2008	21
Changes in valuation allowances	<u>22</u> ⁽²⁾
As of December 31, 2009	<u>\$ 43</u>

(1) Net increase primarily due to 2008 taxable loss.

(2) Net increase primarily due to 2009 taxable loss and long-lived assets impairment.

(d) Income Tax Uncertainties.

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. Orion Power classifies accrued interest and penalties related to uncertain income tax positions in income tax expense/benefit.

In connection with the adoption of an interpretation of accounting for income tax uncertainties, Orion Power recognized the following in its consolidated financial statements:

	<u>Adoption Effect on January 1, 2007</u> <u>Increase (Decrease)</u> <u>(in millions)</u>
Goodwill	\$ (2)
Other long-term liabilities	(3)
Accumulated deficit	(1)

Orion Power's unrecognized federal and state tax benefits changed as follows:

	<u>2009</u>	<u>2008</u> <u>(in millions)</u>	<u>2007</u>
Balance, beginning of period	\$ —	\$ —	\$ —
Increases related to prior years	—	4	2
Decreases related to prior years	—	(4)	(2)
Increases related to current year	—	—	—
Settlements	—	—	—
Lapses in the statute of limitations	—	—	—
Balance, end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2009 and 2008, Orion Power had no amounts accrued for interest or penalties. During 2009, 2008 and 2007, Orion Power recognized \$0 of income tax expense (benefit) due to changes in interest and penalties for federal and state income taxes.

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

	<u>Subject to Examination</u>	<u>Currently Under Audit</u>
Federal	2002 to 2009	2002 to 2008
Pennsylvania.....	2005 to 2009	2006
New York state and city	2003 to 2006	2003 to 2006

Orion Power, through RRI Energy, expects to continue discussions with taxing authorities regarding tax positions related to the timing of tax deductions for depreciation and emission allowances and believes it is reasonably possible some of these matters could be resolved during 2010; however, Orion Power cannot estimate the range of changes that might occur.

(12) Commitments

(a) Lease Commitments.

Operating Lease Expense. Total lease expense for all operating leases was \$2 million during 2009, 2008 and 2007.

(b) 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 \$650 million as of December 31, 2009 and mature in 2012, 2014 and 2036.

Interests Pledged as Collateral to RRI Energy. In connection with Orion Power's debt to RRI Energy (as discussed in note 3), 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.

(c) Other Commitments.

Property, Plant and Equipment Commitments. As of December 31, 2009, Orion Power has contractual commitments to spend approximately \$28 million on plant and equipment relating primarily to maintenance requirements and SO₂ emission reductions.

Fuel Supply Commitment. Orion Power is a party to fuel supply contracts of various quantities and durations that are not classified as derivative assets and liabilities. These contracts are not included in the consolidated balance sheet as of December 31, 2009. For 2011 through 2013, Orion Power has committed to purchase volumes of 141 million MMBTU under some coal contracts for which the contract prices are subject to negotiation and agreement prior to the beginning of each year.

Other Commitments. As of December 31, 2009, Orion Power has other fixed commitments related to various agreements that aggregate as follows (in millions):

2010	\$	1
2011		1
2012		—
2013		—
2014		2
2015 and thereafter		—
Total	<u>\$</u>	<u>4</u>

(13) Contingencies

Orion Power is involved in some legal, environmental and governmental matters, 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 plants 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 plants and in October 2009, Orion Power received supplemental requests for those two plants. 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 (\$10 million and \$7 million as of December 31, 2009 and 2008, respectively) associated with these environmental liabilities as part of its asset retirement obligations. See note 2(o).

Property Tax Contingencies. Orion Power believes it will be subject to additional property tax liabilities related to years 2001 to 2005. As of December 31, 2009 and 2008, Orion Power has \$4 million accrued in long-term liabilities of discontinued operations relating to these contingencies.

(14) Settlement

In October 2008, Orion Power settled its claims in a suit it filed based on breach of a fuel supply agreement. Under the settlement agreement, Orion Power received settlement payments totaling \$20 million (recorded in cost of sales).

(15) Sales of Assets and Emission Allowances

Emission Allowances. Orion Power sold emission allowances (primarily SO₂) during 2009, 2008 and 2007 for gains of \$3 million, \$1 million and \$7 million, respectively.

(16) Discontinued Operations

Subsequent to the sale of the New York plants in February 2006, Orion Power continues to have (a) property tax and sales and use tax settlements and (b) settlements with the independent system operator. These amounts are classified as discontinued operations in the results of operations, consolidated cash flows and consolidated balance sheets, as applicable. See note 13.

The following summarizes certain financial information of the New York plants reported as discontinued operations (in millions):

	<u>New York Plants</u>
<u>2009</u>	
Revenues.....	\$ 2
Income before income tax expense/benefit.....	3
<u>2008</u>	
Revenues.....	\$ —
Loss before income tax expense/benefit.....	(4)
<u>2007</u>	
Revenues.....	\$ (3)
Income before income tax expense/benefit.....	7

In addition, during the three months ended March 31, 2009, Orion Power received a \$28 million refund (previously accrued in current assets) relating to New York state Empire Zone tax credits for the 2004, 2005 and 2006 periods.

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Orion Power owns six electric power plants in Ohio and Pennsylvania with an aggregate net generating capacity of 2,649 megawatts (MW) as of December 31, 2009. Orion Power typically sells its wholesale products to independent system operators, regulated utilities, municipalities, energy supply companies (including RRI Energy), cooperatives and retail "load" or customer aggregators.

Orion Power's business is deeply cyclical and capital-intensive. Our financial results are significantly impacted by supply and demand fundamentals in the regions in which we operate as well as the spread between gas and coal prices. Plants with lower costs dispatch ahead of higher cost plants to meet demand, with the price of electricity being set by the last plant dispatched.

The specific factors that drive our margins include the prices of power, capacity, natural gas, coal and fuel oil, the cost of emission allowances and transmission, as well as weather and economic factors, many of which are volatile. Our ability to control these factors is limited, and in most instances, the factors are beyond our control. We have the most control over the percentage of time that our plants are available to run when it is economical for them to do so (commercial capacity factor). Our key earnings drivers and various factors that affect these earnings drivers include: economic generation (amount of time our plants are economical to operate), commercial capacity factor, unit margin, other margin (primarily capacity sales), costs and hedges.

Impairment of Long-Lived Assets. In December 2009, we evaluated each of our plants including the related intangible assets for potential impairments. We determined that one plant's (New Castle) undiscounted cash flows did not exceed the carrying value of the net property, plant and equipment and related intangible assets. Thus, we estimated the plant's fair value and determined we incurred a pre-tax impairment charge of \$120 million. See note 4 to our consolidated financial statements for further discussion.

Consolidated Results of Operations

2009 Compared to 2008

	2009	2008	Change from 2008 to 2009
	(in millions)		
Gross margin ⁽¹⁾	\$ 34	\$ 341	\$ (307)
Operation and maintenance (including from affiliates) ..	(132)	(165)	33
Taxes other than income taxes.....	(8)	(11)	3
General and administrative – primarily affiliates	(23)	(24)	1
Gains on sales of assets and emission allowances, net – primarily affiliates	3	1	2
Goodwill and long-lived assets impairments	(120)	(174)	54
Depreciation and amortization.....	(89)	(104)	15
Other, net	—	4	(4)
Interest expense	(20)	(23)	3
Interest expense – affiliates	(4)	(6)	2
Interest income – primarily affiliates.....	1	6	(5)
Income tax benefit	121	26	95
Loss from continuing operations	(237)	(129)	(108)
Income (loss) from discontinued operations.....	3	(2)	5
Net loss	<u>\$ (234)</u>	<u>\$ (131)</u>	<u>\$ (103)</u>

(1) Revenues less cost of sales.

Revenues (including from affiliates).

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Third-party revenues.....	\$ 9	\$ 14	\$ (5)
Revenues – affiliates.....	303	571	(268) ⁽¹⁾
Revenues.....	<u>\$ 312</u>	<u>\$ 585</u>	<u>\$ (273)</u>

(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).

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Cost of sales.....	\$ 338	\$ 179	\$ 159 ⁽¹⁾
Cost of sales – affiliates.....	2	(4)	6
Unrealized (gains) losses on energy derivatives.....	(62)	69	(131) ⁽²⁾
Cost of sales.....	<u>\$ 278</u>	<u>\$ 244</u>	<u>\$ 34</u>

(1) Increase primarily due to (a) higher prices paid for coal and (b) losses on coal sales in 2009 compared to gains on coal sales in 2008. These increases were partially offset by decreased coal volumes.

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

Gross Margin.

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Gross margin, excluding unrealized gains/losses on energy derivatives.....	\$ (28)	\$ 410	\$ (438) ⁽¹⁾
Net unrealized gains (losses) on energy derivatives.....	62	(69)	131 ⁽²⁾
Gross margin.....	<u>\$ 34</u>	<u>\$ 341</u>	<u>\$ (307)</u>

(1) Decrease primarily due to (a) decline in results of fuel hedges, (b) lower unit margins (lower power prices partially offset by lower fuel costs) and (c) losses on coal sales in 2009 compared to gains on coal sales in 2008.

(2) Increase primarily due to (a) \$62 million in gains due to reversal of previously recognized unrealized losses on energy derivatives which settled during the period, (b) \$59 million in gains due to the effect of changes in prices on our energy derivatives marked to market and (c) \$10 million in gains due to the effect of a contract renegotiation.

Operation and Maintenance (including from affiliates).

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Plant operation and maintenance.....	\$ 94	\$ 129	\$ (35) ⁽¹⁾
Commercial support allocations.....	23	27	(4)
Other, net.....	15	9	6
Operation and maintenance (including from affiliates).....	<u>\$ 132</u>	<u>\$ 165</u>	<u>\$ (33)</u>

(1) Decrease primarily due to (a) \$23 million decrease in base O&M due to decreased operations attributable to the use of our plant-specific operating model and due to cost reduction initiatives and (b) \$12 million decrease in outages and projects spending.

Taxes Other than Income Taxes.

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Property taxes	\$ 7	\$ 9	\$ (2)
Other, net	1	2	(1)
Taxes other than income taxes	<u>\$ 8</u>	<u>\$ 11</u>	<u>\$ (3)</u>

General and Administrative — Primarily Affiliates.

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Allocations from RRI Energy	\$ 23	\$ 24	\$ (1)
General and administrative – primarily affiliates.....	<u>\$ 23</u>	<u>\$ 24</u>	<u>\$ (1)</u>

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

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Emission allowances.....	\$ 3	\$ 1	\$ 2
Gains on sales of assets and emission allowances, net – primarily affiliates	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 2</u>

Goodwill Impairment. See note 5 to our consolidated financial statements.

Long-lived Assets Impairment. See note 4 to our consolidated financial statements.

Depreciation and Amortization.

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Depreciation on plants	\$ 79	\$ 80	\$ (1)
Amortization of emission allowances.....	10	24	(14)
Depreciation and amortization	<u>\$ 89</u>	<u>\$ 104</u>	<u>\$ (15)</u>

(1) Decrease primarily due to lower weighted average cost of SO₂ allowances.

Interest Expense (including from affiliates).

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Interest expense	\$ 36	\$ 36	\$ —
Interest expense – affiliates	4	6	(2)
Capitalized interest ⁽¹⁾	<u>(16)</u>	<u>(13)</u>	<u>(3)</u>
Interest expense (including from affiliates)	<u>\$ 24</u>	<u>\$ 29</u>	<u>\$ (5)</u>

(1) Relates primarily to environmental capital expenditures for SO₂ emission reductions at our Cheswick plant.

Interest Income — Primarily Affiliates.

	<u>2009</u>	<u>2008</u> (in millions)	<u>Change from 2008 to 2009</u>
Interest income on note receivable from RRI Energy, Inc.	\$ 1	\$ 5	\$ (4)
Other, net	<u>—</u>	<u>1</u>	<u>(1)</u>
Interest income – primarily affiliates	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ (5)</u>

Income Tax Benefit. See note 10 to our consolidated financial statements.

Income (Loss) from Discontinued Operations. See note 15 to our consolidated financial statements.

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure relates to fluctuations in commodity prices, principally, natural gas, power, coal and oil. As described in notes 2(e) and 2(f) to our consolidated financial statements, we have a risk control framework to manage our risk exposure. However, the effectiveness of this framework can never be completely estimated or fully assured. For example, we could experience volatility in earnings from basis price differences, transmission issues, price correlation issues, volume variation or other factors, including margins being compressed as a result of market prices behaving differently than expected. In addition, a reduction in market liquidity may impair the effectiveness of our risk management practices and resulting hedge strategies. These and other factors could have a material adverse effect on our results of operations, financial condition and cash flows.

Non-Trading Market Risks

Commodity Price Risk

Changes in commodity prices prior to the energy delivery period are inherent in our business. Accordingly, we may enter selective hedges, including originated transactions, based on our assessment of (a) operational and market limitations requiring us to enter into fuel transactions to manage our generation assets, (b) the near term economic environment and volatile commodity markets and the benefits of hedging some of the downside risk to our earnings and cash flows and (c) market fundamentals and the opportunity to increase the return from our generation assets. We use derivative instruments such as forwards and options to execute our hedge strategy. For further discussion of these strategies and related market risks, see notes 2 and 5 to our consolidated financial statements.

As of December 31, 2009, the fair value of our energy derivatives was \$8 million current liability, classified as Level 3 based on the observability of the inputs used in the valuation technique. See notes 2(d) and 5 to our consolidated financial statements.

The fair value is subject to significant changes due to fluctuating coal forward market prices, volatility and credit risk. Market prices assume a functioning market with an adequate number of buyers and sellers to provide liquidity. Insufficient market liquidity could significantly affect the value that could be obtained for these contracts, as well as the cost at which these contracts could be hedged.

A hypothetical 10% movement in the underlying energy prices would have the following potential loss impacts on our non-trading derivatives:

<u>As of December 31,</u>	<u>Market Prices</u>	<u>Earnings Impact</u>	<u>Fair Value Impact</u>
		(in millions)	
2009	10% decrease	\$ (17)	\$ (17)
2008	10% decrease	(14)	(14)

This risk analysis does not include the favorable impact that the same hypothetical price movement would have on our physical purchases and sales of fuel to which the hedges relate. The adverse impact of changes in commodity prices on our portfolio of non-trading energy derivatives would be offset (although not necessarily in the same period) by a favorable impact on the underlying physical transactions, assuming:

- the derivatives are not closed out in advance of their expected term
- the derivatives continue to function effectively as hedges of the underlying risk
- as applicable, anticipated underlying transactions settle as expected

If any of these assumptions cease to be true, we may experience a benefit or loss relative to the underlying exposure.

Interest Rate Risk

If interest rates decreased by one percentage point from their December 31, 2009 and 2008 levels, the fair values of our fixed rate debt would have increased by \$1 million and \$5 million, respectively.

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
Unaudited Quarterly Information

	2009			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions)			
Revenues	\$ 84	\$ 70	\$ 77	\$ 81
Loss from continuing operations	(62)	(51)	(27)	(97)
Income from discontinued operations	3	—	—	—
Net loss	(59)	(51)	(27)	(97)

	2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions)			
Revenues	\$ 177	\$ 163	\$ 159	\$ 86
Income (loss) from continuing operations	20	10	17	(176)
Loss from discontinued operations	—	(1)	—	(1)
Net income (loss)	20	9	17	(177)

Variances in revenues and cost of sales from quarter to quarter were primarily due to (a) seasonal fluctuations in demand for electric energy and energy services and (b) changes in energy commodity prices, including unrealized gains/losses on energy derivatives. During 2009, we incurred \$62 million in unrealized gains on energy derivatives (\$18 million loss in the first quarter, \$26 million gain in the second quarter, \$23 million gain in the third quarter and \$31 million gain in the fourth quarter). During 2008, we incurred \$69 million in unrealized losses during the fourth quarter. Changes in net income (loss) were primarily due to these factors and the timing of maintenance expenses.

In addition, net loss changed from quarter to quarter in 2009 by (amounts are pre-tax unless indicated otherwise):

- \$120 million long-lived assets impairment in the fourth quarter
- \$58 million charge for lower of average cost or market adjustments in cost of sales (\$13 million in the first quarter, \$22 million in the second quarter, \$12 million in the third quarter and \$11 million in the fourth quarter)
- \$22 million change in income tax expense/benefit due to increases in our state valuation allowances (\$5 million in the first quarter, \$4 million in the second quarter, \$2 million in the third quarter and \$11 million in the fourth quarter)

Also, net income (loss) changed from quarter to quarter in 2008 by (amounts are pre-tax unless indicated otherwise):

- \$174 million goodwill impairment in the fourth quarter
- \$20 million settlement with a coal supplier paid to Orion Power in the fourth quarter

ORION POWER HOLDINGS, INC. AND SUBSIDIARIES
Ratio of Earnings from Continuing Operations to Fixed Charges
(Unaudited)

	<u>2009⁽¹⁾</u>	<u>2008⁽²⁾</u>	<u>2007⁽³⁾</u>	<u>2006⁽⁴⁾</u>	<u>2005</u>
	(in thousands)				
Fixed charges:					
Interest expense, including					
affiliates	23,732	\$ 29,271	\$ 43,607	\$ 39,823	\$ 40,857
Capitalized interest	16,199	13,289	3,244	—	—
Interest within rent expense	6	6	11	66	227
Total fixed charges	<u>39,937</u>	<u>42,566</u>	<u>46,862</u>	<u>39,889</u>	<u>\$ 41,084</u>
Earnings from continuing operations:					
Income (loss) from continuing operations before income taxes.	(357,933)	\$(155,632)	\$ (60,775)	\$ (11,862)	\$ 72,982
Subtotal	<u>(357,933)</u>	<u>(155,632)</u>	<u>(60,775)</u>	<u>(11,862)</u>	<u>72,982</u>
Plus –					
Fixed charges from above.....	39,937	42,566	46,862	39,889	41,084
Amortization of capitalized interest	821	275	54	—	—
Less –					
Capitalized interest	(16,199)	(13,289)	(3,244)	—	—
	<u>(333,374)</u>	<u>\$(126,080)</u>	<u>\$ (17,103)</u>	<u>\$ 28,027</u>	<u>\$ 114,066</u>
Ratio of earnings from continuing operations to fixed charges	<u>—</u> ⁽¹⁾	<u>—</u> ⁽²⁾	<u>—</u> ⁽³⁾	<u>—</u> ⁽⁴⁾	<u>2.78</u>

- (1) For 2009, earnings were insufficient to cover fixed charges by \$373 million.
(2) For 2008, earnings were insufficient to cover fixed charges by \$169 million.
(3) For 2007, earnings were insufficient to cover fixed charges by \$64 million.
(4) For 2006, earnings were insufficient to cover fixed charges by \$12 million.