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Q1 2010 NRG Energy Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the NRG Energy first-quarter 2010 earnings conference call. My name is Samille and I will be your coordinator for today. (Operator Instructions).

I would now like to turn the presentation over to your host for today's call, Ms. Nahla Azmy.

Nahla Azmy ***NRG Energy, Inc. - VP IR***

Good morning and welcome to our first-quarter 2010 earnings call. This call is being broadcast live over the phone and from our website at www.NRGEnergy.com. You can access the call presentation and press release through a link on the Investor Relations page of our website. A replay of the call will also be available on our website.

This call, including the formal presentation and question-and-answer session, will be limited to one hour. In the interest of time we ask that you please limit yourself to one question with just one follow-up.

Now for the obligatory Safe Harbor statement. During the course of this morning's presentation management will reiterate forward-looking statements made in today's press release regarding future events and financial performance. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

We caution you to consider the important risk factors contained in our press release and other filings with the SEC that could cause actual results to differ materially from those in the forward-looking statements. in this press release and this conference call.

In addition, please note that the date of this conference call is May 10, 2010, and any forward-looking statements that we make today are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of future events, except as required by law.

During this morning's call we will refer to both GAAP and non-GAAP financial measures of the Company's operating and financial results. For complete information regarding our non-GAAP financial information, the most directly comparable GAAP measures, and a quantitative reconciliation of those figures, please refer to today's press release and this presentations.

Now with that I am pleased to turn the call over to David Crane, NRG's President and Chief Executive Officer.

David Crane ***NRG Energy, Inc. - President, CEO***

Thank you, Nahla, and let me add my welcome to everyone. Good morning. Welcome to our first-quarter 2010. While I am speaking to you from Tokyo, joining me in Princeton and speaking on this call are John Ragan, Chief Operating Officer; Gerry Luterman and Chris Schade, our outgoing and incoming Chief Financial Officers.

Also, with us in Princeton and available to answer any specific questions you might ask on the call are Mauricio Gutierrez, who runs our commercial operations business; and Jason Few, who is responsible for our retail business.

So let's begin. Ladies and gentlemen and the shareholders of NRG, thank you for being patient and waiting until the very end of the first-quarter reporting period for our earnings release. Today we are pleased to bring you exciting news, both about the extraordinary financial results which we achieved in the first quarter of 2010, and also about the agreement signed today here in Tokyo with Tokyo Electric Power Company to invest in the South Texas Project, STP 3 and 4.

First, with respect to the quarter, Gerry and Chris will report to you more fulsomely in a few minutes, what I simply wanted to emphasize here the magnitude and significance of what the women and men who make up NRG have achieved, a 26% increase in the first quarter compared to what was considered by most to be a very strong first quarter 2009.

Our $601 million of adjusted EBITDA for the quarter was fueled by strong operating performance across all regions and all business segments. Of course, the two factors which made this number most possible in the face of a declining commodity price environment and generally weak economic conditions were our effective and farsighted forward hedging program and the exceptional performance, financially and operationally, of our retail energy business in Texas.

We have spoken to the financial community repeatedly in the past about the strength of our wholesale/retail combination in Texas, a strength that is unique among competitive power generation companies. And today you have another data point which vividly demonstrates that strength.

In a quarter that was challenging for our generation business as a result of macroeconomic condition, our retail business more than picked up the snap slack financially. Indeed, our retail business ably, led by Jason and his team, not only posted exceptional results, they also largely stabilized the mass business from a customer account perspective, and took giant strides towards resurrecting our C&I business in Texas. You will hear more about our strength and improved performance across all performance metrics in the retail segment in the months to come.

So with ample liquidity and newly simplified capital structure, a core generation business that is hanging tough in a challenging environment, a retail business which has been stabilized with respect to its mass customers and is now growing in C&I.

And now with Chris Schade joining us to take up the crucial position in our management structure as CFO, I am pleased to say that NRG is no longer in transition as we have been for the past several months. We are ready to springboard off a core wholesale/retail business, which is second to none.

So turning to the future, under normal circumstances I would be reporting to you at some length about the great strives that we have taken on our renewable initiatives, the exciting opportunities that we are acting upon and the enormous market potential in the renewable space, a market which becomes more exciting and more real each day thanks to Washington's push towards renewables, with discussions about projects like our DOE award for post combustion carbon capture leading to enhanced oil recovery at Parish, or about the enhanced prospects for our NRG Bluewater Wind subsidiary as a result of Secretary Salazar's Cape Wind announcement, will have to wait another day as I want to focus my comments on today's TEPCO announcement.

For the reasons shown on slide four, TEPCO quite simply is the best possible equity partner for us in the STP 3 and 4 project. Their participation will enhance the prospects for success across many critical aspects of the project, including development, financing, construction and of course operations. With Kariwa Kashiwazaki 6 and 7 plants, they were the first nuclear plant owner in the world to bring an advanced nuclear project online, on time and within budget. Of course, the Kashiwazaki units are ABWRs.

TEPCO has been a technical advisor to the STP project for several years, but now as an owner and development partner they will be directly and actively involved in all phases of making this project a tremendous success for our shareholders, and as a result of today's announcement, for their shareholders as well.

Slide five details terms of the investment. TEPCO expects to pay $280 million in two phases over 12 months to acquire an effective 18% interest in the STP 3 and 4 project. They will also pay their proportionate share of the ongoing costs of project development. They will deploy immediately several commercial and technical personnel deeply and directly experienced in ABWR construction operations to the United States to be part of the project development, including the EPC negotiations.

Their US team will be backed up by all of the very considerable resources of TEPCO in Japan. So in summary we are very, very pleased, and indeed honored, to have TEPCO as a partner in the STP 3 and 4 project. But of course, the mere participation of TEPCO will not by itself provide an absolute guarantee of the success of STP.

This after all is project development, and several important steps need to be taken to ensure the success of the project. Indeed TEPCO's financial participation in STP 3 and 4 is predicated on receipt of a conditional loan guarantee from the Department of Energy. After you hear from John, Gerry and Chris I will be reporting in greater detail about the current status of our loan guarantee application and our plans to carry this project forward or not based on the DOE's decision.

So over to you John Ragan.

John Ragan ***NRG Energy, Inc. - COO***

Thank you, David. Good morning everyone. During Q1 NRG continued to sustain solid operating and commercial performance. Slide seven summarizes these events for the quarter.

Beginning with safety, the Company has started 2010 with a very positive record by achieving top decile performance with a quarterly OSHA recordable rate of 0.85. We had 31 plants that had no recordable incidents, and sustained one of our longest continuous stretches without a recordable incident across the entire fleet.

We believe the disciplined commitment and emphasis on safety sets the cultural foundation required at our Company and provides the catalyst to achieve superior operating results.

Moving onto our fleet operating performance, baseload equivalent availability during the quarter was 88%, which was lower than the 2009 operating results. This was due to several unplanned outages in January and February, which I will discuss on the next slide.

We continue to make progress on our construction projects in the Northeast. The Indian River Environmental Control Project has been re-scoped for Unit 4 only, following the cancellation of the Unit 3 portion earlier in the quarter. The Devon Repowering Project is scheduled for completion in June, and the commissioning phase of this project is now underway.

On the renewables front we have completed all of our operational and commercial due diligence in the South Trent wind project, and await the completion of the Texas PUCT approval process and certain tax and financing requirements necessary to close this transaction.

Our commercial operations in retail organizations continue to maximize value for NRG by combining the strengths of our wholesale generation and retail portfolios. Additionally, we have continued to be successful in winning additional load contracts in the regions where we have generation resources. These longer-term contracts provide another vehicle to hedge our generation position and the opportunity to develop longer-term relationships with customers.

Turning to slide eight, our total generation for the quarter was slightly ahead of our output from a year ago. The addition of Cedar Bayou 4 and the Elbow Creek and Langford wind farms helped to make up the lower generation that occurred due to the retirement of

Somerset unit 6 and the unplanned outages and (inaudible) of our baseload plants. These outages occurred at three plants and consisted of boiler and fan issues at Big Cajun II, a stuck control rod at STP Unit 1, and a generator rotor ground at Dunkirk. All three plants significantly improved their performance in March, moving back into top quartile operating performance.

Turning to our retail business, we have continued to see strong results, and customer count has become more stable in the first quarter as compared to the previous quarters, as shown by the continued reduction in customer attrition during Q1.

Overall our mass sales volumes were higher due to colder than normal weather, and stronger margins were achieved due to falling gas prices during the quarter. The retail group has continued to increase the renewal of existing C&I customers, and has won several key customer accounts that extend the term and diversity of our retail portfolio.

Reliant remains the largest C&I provider in Texas. And the strategic, economic and operational success that the Reliant acquisition has exhibited over the past year continues to reinforce our belief that combining these two entities creates a highly efficient countercyclical business model that enhances the total value for NRG.

Turning to market fundamentals on slide nine, quarter-on-quarter demand grows for ERCOT showed greater strength relative to PJM East, indicating a faster recovery from the recession as compared to other parts of the country. ERCOT set a new winter peak demand record of 55,878 megawatts in January, which was 10% higher than the previous winter peak set in 2007.

Houston heat rates continued to be well supported due to increasing demand recovery, tighter supply and uncertainty around future regulations.

In 2009 coal-to-gas switching was concentrated in the Southeast and Northeast markets. However, due to colder weather and higher gas prices in the first quarter relative to a year ago, this situation was reduced significantly.

Looking forward and under normal weather conditions we see coal-to-gas switching being particularly concentrated in Eastern PJM due to increasing CAP coal prices, which reflect a more international price, as well as lower natural gas prices and tighter basis spreads. We expect negligible coal-to-gas switching in ERCOT for the year.

Lastly, on the bottom right I would like to discuss what we consider NRG's coal portfolio advantage. Our coal fleet primarily burns PRB and lignite coal, and our assets are located in regional markets where gas sets the price of power in most hours of the year. Generally speaking, NRG's coal mix is less expensive and cleaner burning than that the CAP coal that other Eastern IPPs burn.

Additionally, concentrated in gas marginal markets allows coal units to earn the spread between the generation cost of a coal unit and a gas unit. This results in NRG achieving a stronger dark spread compared to other IPP fleets concentrated in the coal marginal markets where prices are closer to the coal unit market generation cost.

Before I conclude the operations section, I want to discuss NRG's environmental strategy. As outlined on slide 10, our current environmental CapEx program is designed to meet the stringent state regulations in New York and Delaware, as well as anticipated federal mercury control requirements and the regional CAIR program. Upon completion of these projects, NRG will be one of the cleanest coal fleets with very low NOX and low to moderate SO2 emission rates. Mercury reductions will be state-of-the-art.

But what projects would be left after this work is complete and additional rules are put in place? Turning to slide 11, as you know, the EPA is creating rules that will cover air emissions for acid gases and mercury, coal combustion byproducts, and the fluent water standards associated with the current 316(b) policies.

The likely outcome for the industry is additional investment for air quality controls, the elimination of wet service impoundments for ash disposal, and the mitigation of once through cooling. Because NRG has already invested in environmental control improvements, the potential remaining investment is manageable. The largest impact to NRG would be the installation of maximum available control technology for acid gases, which is thought to be an SO2 removal system.

EPA is currently collecting data, and is not expected to propose a rule until next March. A worst-case analysis for NRG would be to install six dry scrubbers and an additional bag house at our remaining unscrubbed units. But we believe there are mitigating factors to be considered. Our current emission rates are relatively low, and could be lowered with some operational changes. Additionally, EPA regulations may offer some flexibility.

The recently proposed MACT standard for industrial boilers allows facility averaging across the same type of units. A similar provision for electric generators would provide greater flexibility to meet the new stringent limits. Finally, we believe that the demand for controls across the industry result in continued technological advances and lower costs.

With regard to ashe landfills and water, these new rules should have relatively limited impact on NRG. All our coal facilities currently employ dry disposal practices for fly ash. Only one coal unit at Big Cajun II and the Encina and El Segundo gas plants do not have existed or budgeted mitigation for once through cooling.

In summary, do we have future environmental investments to make? Most likely, yes. When the rules are available, NRG will implement plans to meet the requirements through a mix of repowering, controls, operational flexibility and emissions averaging where possible. However, we don't expect the worst-case scenario to become NRG's base case scenario for environmental spend.

Assessing our current state of environmental controls, and any potential future obligations, we see ourselves very well-positioned as compared to other coal-fired peers within the sector.

Switching now to the hedge profile of our portfolio on slide 12, our wholesale and retail segments continue to be well hedged over the next few years. Our baseload generation is more than 100% hedged this year, 70% next year, and greater than 50% the following. We have continued to actively hedge our baseload portfolio during Q1, but given the current gas environment, we have been focused on using option structures like we did back in 2006. This strategy helps to protect us from further downward gas price movements, while retaining some upside for positive price movements. We will be in a better position to provide you with more detail on our 2011 hedge strategy during our next earnings call.

Concerning our retail position, we increased our hedge percentages due to the growth in fully priced retail load. Since we are talking about hedging, let me spend a minute on the potential impact of the Financial Reform Bill on our hedging program. We anticipate that new legislation will require financial derivatives to be traded on exchanges, but we also expect an end-user exemption that would allow us to continue transacting over-the-counter, and therefore continue using our first lien structure as collateral for hedging.

In the very unlikely case that we do not qualify as an end-user, we will rely less on our first lien and more on matching our generation and retail portfolios, which provides NRG a significant, competitive advantage by having a natural offsetting position for our supply portfolio.

The chart at the top right shows our coal and transport hedge positions. While we are well-positioned through 2011, we are currently working on firming up a few contracts which are rolling off in the near future.

The bottom left chart illustrates our baseload gas price, heat rate and coal sensitivities. As you can see, NRG tends to be more leveraged to natural gas changes than equally probable heat rate and PRB coal changes. The negative gas sensitivity in 2010 is caused by NRG would being more than 100% hedged for our generation business.

Finally, we have added a coal price sensitivity to this chart, which shows our exposure to unhedged market commodity coal price movements. The sensitivity describes the gross margin impact of $1.50 per ton upward movement in PRB commodity prices, which is our predominant coal fuel. Even what we have shown on our use of PRB and lignite coal on slide nine, our sensitivity is fairly limited, particularly through 2012.

In closing, slide 13 sums up our near-term goals. I want to specifically mention too, first, we will stay very focused on achieving top quartile to top decile safety and operational performance throughout our fleet. Based on the tragedies we have all seen in the power generation, coal mining and offshore drilling sectors during the first four months of 2011, it is imperative to continuously improve our safety programs, and always keep safety overproduction as our defining DNA structure within the NRG culture.

Secondly, our Commercial Operations Group will continue to look for attractive opportunities to hedge the forward portfolios in the most collaterally efficient way. We continue to believe it is still early in the year, and we will remain vigilant in looking for opportunities to hedge more of 2011 and 2012 portfolio positions, as long as the strategy meets our fundamental price outlook within our different regions.

Now I will turn it over to Gerry, who will discuss our financial results.

Gerry Luterman ***NRG Energy, Inc. - Interim CFO***

Thank you, John. Good morning and thank you once again for joining us today to discuss NRG's first-quarter 2010 financial results. Since this is my last conference call as interim Chief Financial Officer, a role I greatly enjoyed, I will talk to this quarter's actual results, while Chris Schade, my very able replacement, will address 2010 guidance and his priorities as NRG's new Chief Financial Officer.

I will continue to serve on the NRG Board of Directors. Turning to our financial summary, on slide 15 the Company delivered record financial results in the quarter with adjusted EBITDA of $601 million, a 26% increase from a year ago. This increase was driven by the excellent performance of Reliant Energy, that contributed $190 million of adjusted EBITDA.

During this quarter the Company made payments on its Term Loan B, as well as settling Common Stock Finance 1, CSF I (technical difficulty) flow of $471 million. It should be noted that the decision to settle the CSF I four months earlier than planned resulted in savings of $7 million. Total liquidity now stands at $3.2 billion, including over $1.8 billion in cash.

Chris will be discussing in more detail the adjusted 2010 guidance, but in summary we are leaving EBITDA guidance unchanged at $2.2 billion, and increasing free cash flow guidance by $112 million to $462 million.

Turning to slide 16, the quarter-over-quarter adjusted EBITDA bridge or waterfall slide is presented. This slide reinforces the complementary benefits of owning both wholesale generation and retail in the state of Texas, as well as the two businesses contributed a net favorable variance of $142 million quarter-over-quarter.

Reliant Energy had $190 million of adjusted EBITDA for the quarter, driven by colder than normal weather, with a 31% increase (technical difficulty). Reliant also benefited from improved performance in customer retention, as well as a reduction in bad debt expense as we began to see improved customer payment behavior.

Texas generation declined $48 million from $320 million in the first quarter of 2009 to $272 million for Q1 2010. The combination of a decline in hedged prices on our baseload assets, and 8% decline in nuclear generation, and an 18% increase in delivered coal costs at WA Parish and Limestone lead to lower energy margins of $37 million.

Additionally, O&M costs were higher this past quarter and STP by $9 million as the plant prepared for its Unit 2 refueling and maintenance outage that began this past month.

The Northeast EBITDA results for Q1 2010 were lower by $30 million to $76 million from $106 million in 2009. The major drivers of this performance included the decision to retire Indian River (technical difficulty) lower average baseload hedge prices and a decline in generation.

The plan to retire Indian River Unit 3 by December 31, 2013 announced on February 3, resulted in $14 million of cost related to the write-off of construction in progress and termination fees.

Energy margins meanwhile were unfavorable $38 million, driven by a decline in baseload hedge prices and a 9% decline in generation. Partially offsetting these unfavorable variances were capacity price increases in 2010 for New York and PJM totaling $8 million, and a favorable operating cost including lower maintenance and chemical costs of $14 million.

Turning to the international results, the decline of $11 million quarter-over-quarter is mainly as a result of MIBRAG's first-quarter 2009 earnings contribution of $12 million, which was subsequently sold in June of that year. Finally, the sale of Padoma announced on January 21st resulted in a $23 million positive impact on EBITDA, as shown in (technical difficulty).

Before closing and although not highlighted, adjusted EBITDA for the South-Central region was lower by $3 million to $26 million. The decline was as a result of an 8% increase in load requirements due to colder than normal weather and a 2.4% decrease in generation at the Cajun.

Slide 17 illustrates our first-quarter 2010 free cash flow generation. Cash from operations for the quarter totaled $114 million, $25 million lower than 2009. Driving the decline quarter-over-quarter were both higher interest payments and changes in collateral postings. The $54 million increase in interest payments is related to the early termination of the CSF I, which included an accrued interest payment of $52 million.

Moving to free cash flow from recurring operations, preferred dividend payments were substantially reduced quarter-over-quarter (technical difficulty) 5 3/4 and 4% convertible preferreds converted to common stock during the past 12 months.

Turning to free cash flow. Environmental CapEx net totaled $38 million in the quarter, and was mostly due to spending in Indian River 4's air quality control system, or AQCS controls, that are being installed.

And finally, repowering NRG net cash expenditures are primarily related to STP 3 and 4 nuclear projects. Last year repowering investments of $150 million included $32 million for NINA, $20 million -- $28 million for Langford, and $11 million for Cedar Bayou.

Slide 18 outlines the Company's liquidity position as of March 31, which excluding funds deposited by hedge counterparties stood at $3.2 billion.

The driver of changes in liquidity are as follows. The Term Loan B paydown of $237 million, of which $229 million was related to the 2009 excess cash flow sweep. As you remember during the fourth quarter conference call, we announced that we made an early payment of $200 million. In total the 2009 excess cash flow sweep payment was $429 million. And $109 million(Sic-see press release) of debt paydown, excluding interest of $52 million related to the early settlement of CSF I, and $185 million of CapEx or capital expenditures.

During the quarter NRG issued $157 million net from the synthetic LC facility to support routine business activities, as well as replace Merrill Lynch as guarantor of certain Reliant Energy counterparties.

These items were offset by cash from operations of $114 million and $29 million of proceeds from the sale of Padoma, as well as $59 million increase in availability of the first lien revolver as a result of finalizing the Dunkirk bonds at 5 7/8%. All in all the Company has sufficient hedging capacity within the lien structure to support its activities.

Turning to slide 19, at the November 2009 Analyst Day held in Houston, I addressed a number of items that we were going to -- that were going to occur that would simplify our capital structure. I have already spoken about the excess cash flow sweep, the early settlement of the CSF I, and the conversion of the 4% preferred, but here you can see the impact to NRG's overall capital structure. With the strength of our balance sheet and strong liquidity position, NRG is positioned to take advantage of future growth opportunities.

I am also pleased that recognition of these efforts was confirmed by Fitch last week, as current upgraded (inaudible) ratings on NRG reflecting both a stable outlook and the relative strength of our balance sheet.

With that, I would like to turn the call over to the new CFO, Chris Schade.

Chris Schade ***NRG Energy, Inc. - CFO***

Before returning to the next slide, I would like to say that I am very happy to be here at NRG, and look forward to working with David and his team as we continue a proven track record of business execution and prudent financial management.

I would like to start with our 2010 outlook on slide 21. The Company recorded recorded results in the first quarter while in a low gas price environment. These results reinforce our Texas-based strategy of owning both wholesale and retail, and as such we are reaffirming our full-year EBITDA guidance of $2.2 billion. The Company generally has not changed guidance during the first quarter, as it is still early in the year and the summer months can be primary drivers of full-year results. With that said, the Company is off to a very good start.

I would like just to briefly cover our capital expenditure plans for a 2010. Our repowering investments guidance of $92 million includes $54 million into GenConn energy, our 50-50 joint venture with United Illuminating as a repowered facility at Devon Connecticut is expected to soon start commercial operations and contribute to results this year. $14 million for the installation of a combined heat and power system at the new University Medical Center of Princeton at Plainsboro, $10 million for demolition work at our El Segundo California facility, $7 million for electric vehicles, and $5 million for offshore net towers as part of our offshore wind initiative.

As for our nuclear development program, our net cash spend is estimated to be $328 million. With that, free cash flow is forecasted to be higher than projected last quarter by $112 million to $462 million, reflecting the anticipated proceeds from Tokyo Electric, which David will cover in greater detail later in the presentation.

Finally, based on Friday's closing stock price of $22.64, the recurring free cash flow yield currently stands at just over 18% or $4.10 per share.

Slide 22 provides an update on the Company's 2010 capital allocation program. During the first quarter significant progress was made on the plan, including capital management and growth initiatives. While Gerry has already addressed the capital management portion of the plan, I would like to briefly address share repurchases, NRG's growth initiatives, and my priorities for the coming year.

Although there weren't share purchases completed in the first quarter, NRG is committed to the previously announced $180 million Board-approved repurchase plan, and will look to complete it by year end.

Second, in the first quarter the Company made significant progress moving its clean energy initiative forward through, the pending acquisition of the Southtrust Wind Farm in Texas, which brings the Company's wind portfolio to approximately 450 megawatts, with the Department of Energy selection of NRG to receive over $150 million from the American Recovery and Reinvestment Act for WA Parish's post combustion carbon capture demonstration project, and the agreement announced today with Tokyo Electric to invest in NINA's STP 3 and 4 project, which currently enhances the Company's financial flexibility as we move through the second half of 2010.

Now before turning it back over to David, I want to address a few of my top priorities for the year. My experience from my tenure at Medarex is that liquidity is king, and it will be a priority to manage carefully our balance sheet and liquidity requirements. NRG consistently generates strong free cash flow, and in my mind there is a distinct balance between managing liquidity, continuing to invest in the Company, and returning value to shareholders through share repurchases and debt reductions.

To the extent our restrictived payment basket covenant on outstanding debt impacts our ability to efficiently or best allocate capital for stakeholders, that NRG must consider solutions to relieve such restrictions. However in my view, any consideration must also be based on market conditions affecting our operations.

Second, NRG has a history of financial transparency in its reporting practices, and I expect to maintain that level of detail, while improving our practices as needed. And finally, as I continue to integrate myself in NRG's business, I look forward to meeting as many of our investors and analysts as possible over the coming weeks or months.

With that I will turn it back to David for closing comments and questions.

David Crane ***NRG Energy, Inc. - President, CEO***

Thank you, Chris and John. And particularly I want to thank you, Gerry, for pitching in for the last six months. We look forward to continuing to work with you on the Board.

Now turning back to the presentation and nuclear development on slide 24, the current status of the STP 3 and 4 projects is really quite simple. Everything depends on actions which will be taken in Washington sometime in the next several weeks. Almost two years after we filed our application for a federal loan guarantee, and a full five years after such loan guarantees were authorized by the Energy Policy Act of 2005, which is what triggered our development of STP 3 and 4, we are now in the absolute final stage of DOE consideration of our loan guarantee application.

As the DOE process has been both very demanding and highly iterative, we are confident that we have done everything reasonably requested of us to satisfy the government's concerns, which have been ably and forcefully expressed by the DOE staff and their consultants on behalf of the American taxpayer, and have which been focused on ensuring the credit quality of the proposed loan guarantee.

As such, and while we have no assurances at this time from the DOE or from any other branch of the US government that we will be awarded a guarantee, we are and we remain confident in our position.

The issue that exists is one of appropriations and timing. While the Obama administration is seeking to expand the nuclear loan guarantee program in the next budget cycle, the next budget cycle is months away, and right now they have two projects, our project and Constellation's Calvert Cliffs project, which are at the same place in the process, and each asking for about $7 billion in loan guarantees, when there is a little more than $10 billion currently appropriated and available.

Moreover, neither -- well, not NRG, and we don't believe Constellation based on statements they have made, are in a position to carry their projects through to the next budget cycle at a cash burn rate that will keep their projects or our project on track.

We believe there is very strong bi-partisan support across a broad swath of the executive and legislative branches to make it possible for the US government to support both projects without disruption. We believe our public policymakers in Washington recognize and appreciate that much has been invested by Constellation and NRG in the massive greenhouse gas reducing infrastructure projects, and that these projects represent a large number of present and future American jobs.

As the vanguard of the nuclear renaissance, the success of these projects is essential to the buildout of the domestic nuclear supply chain that will be needed for the United States to be cost competitive in the burgeoning global market for nuclear power plants.

But as we all know, it can be a very long way in Washington from good intention to positive outcome. So we at NRG are prepared both for a positive result and a negative result. Our plan for both outcomes is outlined in broad brush terms on slide 25.

If we get a full loan guarantee, we move forward to the next steps in a cash prudent manner. If we do not, we essentially suspend work on the project and reduce the external cash burn to near zero, while we seek to mitigate our exposure to the project today.

Not withstanding our contingency plan for what we do if we don't win, you should walk away from this conference call knowing that we, the management of NRG, are very confident that we will secure a federal loan guarantee. It is equally important for you to understand that such a win would indeed be a big win for NRG shareholders and would not be a de facto loss, as some of you maybe previous to today's announcement might have thought.

If we win we will pursue the project vigorously on all critical path items, but we nonetheless will significantly reduce our planned burn rate on project engineering. Recognizing that we don't need to be as far along at the time our CLO is expected to be granted as we had previously planned.

More over as depicted on slide 26, in part due to the buy in and participation of TEPCO, and as a result of various additional sources of project funding, we expect to fund STP through the critical stages of 2010 with a call on NRG's cash resources which is, while still significant, very manageable relative to the size of the project opportunity.

If we get past the loan guarantee there are two more critical steps in 2010 as outlined on slide 27. First, as we outlined at our Analyst Day last November, we need to confirm that Toshiba and [Flor] can and will build the project for $10 billion or less. Very detailed work is being done on this issue as we speak, and it is progressing satisfactorily.

Then armed with a reliable EPC number, we then need to confirm offtake with the offtake partners, with whom we currently have a Memoranda of Understanding, for a significant portion of the new plant's output.

In this respect I know there is concern in the market that those offtake agreements will not be available at a viable price level as a result of the decline in natural gas prices over the past couple of years. While, of course, I cannot provide you assurance until binding agreements have been signed, our analysis indicates that if you take into account first the fact that the natural gas forward curve is in contango. Second, that the $18 per megawatt hour production tax credit under the Energy Policy Act of 2005. Third, the benefit of fuel diversification to load serving entities in Texas, many of whom are almost entirely dependent on gas-fired generation at this time.

Fourth, if you ascribe a modest amount of value to the future value of the full carbon hedge provided by nuclear, we believe we have a very good chance of success at arranging sufficient offtake for this project to ensure project viability at an equity return that makes it worthwhile from the perspective of NRG, and I should say that is at a risk-adjusted return of equity that is appropriate for a nuclear power plant.

Which brings me to the last point, which I wanted to address directly before opening the lines for questions. I want to address the issue of shareholder value in the context of our nuclear development project.

All of us on this call, whether you are a regular shareholder of NRG or an employee shareholder of NRG, as all of us from the Company are, we can agree on one thing, and that is that we are unhappy with the Company's share price performance over the past several months. This is particularly frustrating for many of us in the Company because, as depicted on slide 29, we feel that our stock has been under pressure over the past months despite several obvious wins which we have achieved.

It has become increasingly clear to us that we cannot hope to create upward momentum in our share price simply by posting more and more achievements in the win column. We need to address directly the factors which overhang our stock, namely, better gas price, sentiment and concern about the cost, risks and prospects of our nuclear development.

With respect to gas prices, there obviously is nothing we can do about the trajectory of gas prices themselves, but we can diversify our expected cash flow streams away from near total dependence directly or indirectly on natural gas prices as existed, as was the case for NRG before we bought Reliant.

A key differentiation point between us and our current peer group of merchant generators now and increasingly in the future is that we see the path to maximum shareholder value creation as something different from just winding up as many power plants as you can get your hands on, so that you can sell as many megawatt hours as you can at natural gas derived prices.

We see the future in terms of the dual strategy which we have depicted on slide 30. That is using our core wholesale generation plus retail strength as a platform to springboard into a range of non-natural gas correlated revenue and free cash flow streams, such as renewable energy credits, carbon credits, payments for capacity, funding and other auxiliary services, and green energy service business, whether associated with smart meters, electric vehicle infrastructure, or both.

In most, if not all these areas, our unique position in wholesale and retail and in Texas gives us a substantial competitive advantage.

We began the process last November by showing slide 31 at our Analyst Day of laying out for you our objective, that by the latter part of this decade we will roughly double the Company's recurring free cash flow to a first mover push into the areas I just mentioned. That push is led from a free cash flow perspective by what we hope and expect to achieve in low carbon base load power, principally nuclear, and in renewables, principally solar. You can expect as we go forward on the quarterly calls and Analyst Days to come that we will fill out this picture and demonstrate to you how we are going about achieving this financial objective.

Doubling our recurring free cash flow in a few years may strike you as ambitious, but of course that is what we achieved from 2006, our first year with Texas Genco, through 2009.

So finally in conclusion on slide 22, new advanced nuclear power plays a fundamental part in our plan, as I believe it does in the future energy mix of our increasingly low carbon society. Nothing has more confirmed that to me than the Obama administration's announcement earlier this year that it was seeking $54 billion of nuclear loan guarantee authority, meaning that support for new nuclear in Washington is now fully bipartisan.

$54 billion of loan guarantees means $70 billion plus in new nuclear projects, enough to fund 8 to 10 new plants. I believe that if the United States starts to build 10 new nuclear plants then inevitably our country will build 100, as we need to do. That means new nuclear power will be a $500 billion to $700 billion market. And we at NRG have the opportunity through the STP 3 and 4 project to be the first mover in an industry which certainly will follow the lead of the successful first movers.

That is why we have taken on this challenge in order to access this once in a business lifetime opportunity. We will pursue this opportunity aggressively, but I hope you are convinced after today's presentation we will not pursue it irrationally or in a matter that is financially imprudent, and we will not proceed without a near-term federal loan guarantee commitment.

So with that, we would be very pleased to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Daniel Eggers, Credit Suisse.

Daniel Eggers ***Credit Suisse - Analyst***

David, I guess just kind of in this conversation, just to make sure we are fully clear, your view is that you're not going to go forward with South Texas without getting the federal loan guarantees this time through. So in the next few weeks, and if you do not get those then you go on a cold stop. Does that mean you would reconsider going forward in building if the President's budget is expanded?

David Crane ***NRG Energy, Inc. - President, CEO***

Well, yes, obviously it is a good question. It is a hypothetical question. I think if we do not get awarded the loan guarantee at this time probably what we will do, and this is first addressing your characterization as a cold stop, is that we would -- and we would have to see what the cost of this would be -- but we would probably shut down everything, except we might keep the license process going.

Our initial estimate is just to see the license through would cost less than $10 million a year. And given where we are, and the fact that certainly one thing we would be doing would be trying to mitigate the amount we have spent through selling the intellectual property to other people who might want to be pursuing that type project, we probably would try and carry through to get the license done, unless it was too expensive.

Apart from that, if they came back a year from now when further money has been authorized and said, you can have your loan guarantee now, and we basically wound down everything, we would have to work look at the circumstances at the time.

One thing is when you unwind an effort like this, as I say, it is hard to put Humpty Dumpty back together again. So I wouldn't be overly confident that we could come back and resurrect the project a year from now.

Daniel Eggers ***Credit Suisse - Analyst***

One of the lines in your presentation suggest that may be some sort of additional appropriation on a short run basis to give both you and Constellation your full loan guarantees now. Is that something you are hearing actual work on, or is that just a hope as a way of trying to keep two good projects alive?

David Crane ***NRG Energy, Inc. - President, CEO***

I think there is a lot of work being done. I think there are a lot of people in Washington, certainly people on our end and I would presume on Constellation's end, that are suggesting various ways that this dilemma could be solved. And additional appropriations outside the normal budget cycle is probably most prominent on that list.

The government does do appropriations outside of the budget cycle. And while the amount of money that we would be talking about, the shortfall of the $14 billion needed, minus the $10 billion they have, $4 billion sounds like a very large number.

My understanding of the appropriations that they would actually have to put through the process, would actually just be essentially the cost of the loan premium, which is a number that is less than $100 million. So that is definitely not insurmountable, but at this point I am not in a position to preclude any of the variety of ways that people inside and outside the government have suggested for the government to resolve this conundrum. We would be happy with any of the ones that work.

Daniel Eggers ***Credit Suisse - Analyst***

Okay, I will get in trouble if I ask anymore. Thank you.

Operator

Ameet Thakkar, Bank of America.

Ameet Thakkar ***Bank of America - Analyst***

David, could you help us reconcile the seemingly different dollar per KW valuations that CPS recently paid and what TEPCO is paying today, and then I guess with the original transaction with Toshiba, could you help us understand that, or how we should look at it?

David Crane ***NRG Energy, Inc. - President, CEO***

Well, I'm not sure. I think that the number that TEPCO has paid -- and it is quite comparable to the number that Toshiba paid a couple of years ago. I have seen attempts to analyze it against what CPS, or what we have -- what do you mean by what we propose to pay CPS? The $80 million that we would pay if we get the loan guarantee?

Ameet Thakkar ***Bank of America - Analyst***

The $80 million that you would pay to them to get the loan guarantee program, plus they are going to get, I guess, roughly 7% or 8% of the capacity of the project in return for the capital that they had spent when they exited the project. I believe that was around $300 million.

David Crane ***NRG Energy, Inc. - President, CEO***

It is very hard to do this without going through a spreadsheet. We would be happy to make a best effort at doing that. Because one of the problems with development is that the money being invested at this stage is either very valuable or it is really worth nothing. It is fairly binary.

What I would tell you is on its face us paying $80 million to CPS for their 40% something interest that we are getting from them, obviously TEPCO paying $280 million to get 18% of the project, one looks much better than the other. But it is really hard to compare them. As you say, then you have this sort of present value, what the carried interest that CPS would have starting in 2017. So we will try and put something like that together, but it is very much an apple and orange comparison.

Operator

Neel Mitra, Simmons & Company.

Neel Mitra ***Simmons & Company - Analyst***

I was wondering if you could comment on the chances that the DOE would split a loan guarantee with you and Constellation? And what exactly would happen if that were the case, would you proceed or would you stop the project at that point?

David Crane ***NRG Energy, Inc. - President, CEO***

I think it is a very, very good question. I would say that I think the chance of the DOE, and I could be wrong about this, because again, it is the government and I'm not necessarily an expert. But certainly we have never gotten any indication from the DOE that they would do that. Because if you think about the government's position, the people at the DOE and in the government generally have worked as hard on this over the last couple of years as we have.

I think that the last thing the government wants to do is announce two partial awards, two $5 billion awards for two companies that were seeking $7 billion. And then have both companies respond the next day by essentially suspending their project.

Because while $5 billion sounds like a lot -- a large number, if you think of the delta between the $5 billion and the $7 billion plus, that is an enormous amount of equity to raise. Again, we cannot speak for Constellation, even though I have tried to do that several times during this call. But on behalf of NRG's and [Enos'] perspective, we have run the numbers and we have conveyed to the government that we cannot go forward with half of the existing money.

Neel Mitra ***Simmons & Company - Analyst***

Okay, great. Thanks. Are the put options that you're using to hedge, are they being reflected in the hedge percentages now going forward?

David Crane ***NRG Energy, Inc. - President, CEO***

Mauricio, do you want to take -- you want to answer that question?

Mauricio Gutierrez ***NRG Energy, Inc. - EVP, Commercial Operations***

No, they are not reflected yet. I think when we go into our second-quarter earnings call you will see them.

Operator

Brandon Blossman, Tudor, Pickering, Holt.

Brandon Blossman ***Tudor, Pickering, Holt - Analyst***

I guess just following up on Neel's question on hedging, the incremental hedge position for '10, does that reflect a reduction in planned generation or is that actually incremental positions?

David Crane ***NRG Energy, Inc. - President, CEO***

Mauricio?

Mauricio Gutierrez ***NRG Energy, Inc. - EVP, Commercial Operations***

No, you're right. That reflects basically the lower generation that we are seeing because of our lower gas prices. At this point as we are going into the summer season, we have decided to keep the imbalance between our hedges and our expected generation, and we will rebalance as we go through the summer.

Brandon Blossman ***Tudor, Pickering, Holt - Analyst***

This is probably for Jason. Jason, can you give any color or comment on quarter-over-quarter mass retail margins? Obviously a stellar performance in Texas retail this quarter.

Jason Few ***NRG Energy, Inc. - SVP, Retail***

We don't give margins between mass and C&I, but overall we talked about if our margins -- in the November analyst meeting we talked about being able to maintain $20 margins throughout 2010. And obviously through the first quarter we have been able to perform better than that.

But we really do try to manage against the value equation and take the opportunities when they present themselves to perform better than what we -- what the outlook back in November. So during the first quarter we were able to achieve that between both the mass and the C&I business.

Operator

Jay Dobson, Wunderlich Securities.

Jay Dobson ***Wunderlich Securities - Analyst***

On the need additional 10% that TEPCO has an option on, so the $30 million, are there any other terms associated with that, other than the contingency for the loan guarantees?

David Crane ***NRG Energy, Inc. - President, CEO***

I am glad that you asked that question. And as you could tell from my -- the way that I expressed it, I take TEPCO's investment to be the full amount, which is essentially paid in two stages. There are no conditions precedent attached to the second piece -- the second tranche.

But obviously, as you saw the way it was structured, they are paying $30 million as part of the first payment in order to have that option. So certainly legally, contractually, they have a right to stick at the original amount. But That certainly I have no expectation that if the project is proceeding, they will do that, that they will come forward with a second portion, because their comfort zone in terms of the size of the project they wanted was in the 20% range.

Jay Dobson ***Wunderlich Securities - Analyst***

Great. Then I am not sure if this question is for Chris or Gerry, but in reading or understanding your comments around the RP basket, it sort of sounded as if you are backing away from a commitment to solve that this year. Did I misinterpret that or is it a little different focus?

David Crane ***NRG Energy, Inc. - President, CEO***

I will turn that one to Chris, but I would -- I would say I don't think we have ever made a firm commitment to actually at any price get the RP basket issue resolved. But you're right, just to make sure that semantically we are on the same page there, we certainly said we would undertake to give it the old college try to do it at a reasonable price, if we could do it at a reasonable price. But, Chris.

Chris Schade ***NRG Energy, Inc. - CFO***

Just to amplify what David said, certainly I understand the issue at hand, and I will be looking into it in the very near term to make a decision. But any decision we make, as I said in my prepared remarks, is going to be based on the overall business and the current market we are operating.

Operator

We have time for two more questions. Brian Chin, Citigroup.

Brian Chin ***Citigroup - Analyst***

Asked and answered. Thank you.

Operator

Michael Lapides, Goldman Sachs.

Michael Lapides ***Goldman Sachs - Analyst***

Two questions. One, can you quantify the impact of weather on the retail business during the quarter? And two, am I reading that Padoma Wind's gain on sale is included in the adjusted EBITDA number?

David Crane ***NRG Energy, Inc. - President, CEO***

The easy answer -- I will take the easy answer and then ask Jason to do -- actually, they are both pretty easy. But he will be the first one. The second one is the answer is, yes that the gain on sale Padoma is in the adjusted EBITDA. Jason, do you want to talk about the impact of weather?

Jason Few ***NRG Energy, Inc. - SVP, Retail***

We saw a colder winter than normal in Texas, and so that created an opportunity for us against not only our month-to-month customer base, but also our fixed-price customers on the mass side, actually expand margins given the lower gas prices.

So the one thing about weather is that it has more of an immediate impact on our performance. Even though we showed strong results with respect to our attrition rate on our customer count, weather has had a much bigger impact on our first-quarter results given the colder winter.

Michael Lapides ***Goldman Sachs - Analyst***

Can you quantify that in either terawatt hours or in dollars millions, just throw some numbers around that?

Jason Few ***NRG Energy, Inc. - SVP, Retail***

What I would like to do is maybe we could take that off line and I'll take you through it in some more detail.

Michael Lapides ***Goldman Sachs - Analyst***

Great, I appreciate it. Thanks guys.

Operator

That concludes the Q&A session. I would now like to turn the call back over to management.

David Crane ***NRG Energy, Inc. - President, CEO***

I think that, as you say, we are done. We appreciate everyone taking the time this morning. And we look forward to speaking with you again next quarter. Thank you very much.

Operator

Ladies and gentlemen, that concludes the presentation. Thank you for your participation. You may now disconnect. Have a great day.

THOMSON REUTERS

PLACEHOLDER TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, welcome to the second quarter 2010 NRG Energy earnings conference call. At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of today's conference. (Operator instructions). I would now like to turn the presentation over to your host for today's conference, Ms. Nahla Azmy, Senior Vice President of Investor Relations. Please proceed.

Nahla Azmy ***NRG Energy - SVP, IR***

Good morning and welcome to our second quarter 2010 earnings call. This call is being broadcast live over the phone and from our website at www.NRGEnergy.com. You can access the call presentation and press release through a link on the investor relations page of our website. A replay of the call will also be available on the website. This call, including the formal presentation and the Q&A session, will be limited to one hour. In the interest of time, we ask that you please limit yourself to one question with just one follow-up.

And now for the obligatory Safe Harbor statement -- during the course of this morning's presentation, management will reiterate forward-looking statements made in today's press release regarding future events and financial performance. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We caution you to consider the important risk factors contained in our press release and other filings with the SEC that could cause actual results to differ materially from those in the forward-looking statements in the press release and this conference call. In addition, please note that the date of this conference call is August 2, 2010, and any forward-looking statements that we make today are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of future events, except as required by law.

During this morning's call, we will refer to both GAAP and non-GAAP financial measures of the Company's operating and financial results. For complete information regarding our non-GAAP financial information, the most directly comparable GAAP measures and the quantitative reconciliation of those figures, please refer to today's press release and this presentation.

Now, with that, I'd like to turn the call over to David Crane, NRG's President and Chief Executive Officer.

David Crane ***NRG Energy - President and CEO***

Thank you, Nahla, and good morning, everyone. I want to provide -- add my personal welcome to the second quarter call, and I want to apologize and thank you for accommodating our date shift from tomorrow to today. Since it was done on my schedule, I hope that by getting you to listen to us on a Monday morning we've brought you some good news earlier in the week than we otherwise would have.

Today I'm joined by Chris Schade, our Chief Financial Officer, who will begin part of the presentation; and John Ragan, who will beginning the Chief Operating Officer's part of the presentation. Although, as maybe you know, John Ragan has moved on to become the President of NRG Texas. His successor as Chief Operating Officer of the Company, Mauricio Gutierrez, is also here, but he will be reprising his role as the Head of Commercial Operations and available to answer questions on topics relating to the markets and the commodities. Finally, I'm also joined by Jason Few, who runs Reliance Business.

Before I get started I just want to mention, of course, that this shift in the management team has been caused in large part by the retirement of Kevin Howell. I know many of the long-term shareholders on the phone know Kevin well, and Kevin has had a great career at NRG, first fashioning our superb commercial operations team, then being -- acting as Chief Administrative Officer, and most recently as president of NRG Texas. I want to thank Kevin for the phenomenal job he's done. He will be -- I appreciate that a couple of years ago, when he wanted to retire, he allowed me to persuade him to stay a couple extra years, and I just want to thank you personally for all that is done for this Company.

Now turning to the presentation and page three, referring to the slides that have been posted on our website, I wanted to start, as I usually do, by giving you my take on the Company's financial performance during the quarter. The Company quite simply performed spectacularly well during the quarter, and our superior performance, combined with favorable prevailing weather conditions, produced an exceptional financial performance for the Company -- $693 million of adjusted EBITDA, the second-strongest second quarter in our history, and nearly $350 million of cash from operations.

The goal of operating the business for cash, as we always have done, obviously is first to accumulate that cash and then to allocate it in a timely and efficient manner on behalf of its owners, NRG shareholders. We have been successful on both counts during the quarter, increasing our cash balance by over $360 million, and by allocating the cash effectively, including $50 million expended to buy back NRG shares as the first stage of our 2010 capital allocation program.

Our cash accounts were buoyed by, in addition to our cash generated from operations, by more than $100 million received under the cash ITC program from the federal government in connection with the Langford Wind and the Blythe Solar projects. I'm very pleased with the steps we are taking towards building more flexibility into our capital structure, and Chris will talk more about that during his presentation.

As we assess where we stand at this financial midpoint in 2010 today, the results achieved over the previous six months, together with the positions we have taken with respect to the six months to come, I'm very pleased to report to you that today we are increasing our guidance for the full year for both adjusted EBITDA and cash from operations by a very substantial amount. As you assess our new guidance, as I believe that you must given the absolute magnitude and the sizable margin by which our performance in 2010 to date has exceeded the expectations of the financial community, I ask you to be mindful of three things.

First, consider that, 14 months after we purchased Reliant, perhaps it is time to recognize the superiority of our wholesale-retail model, unique among our peers, and as such acknowledged that we merit a multiple premium rather than a multiple discount in comparison to pure generators.

Second, consider the resilience of our business model, based as it is on the twin pillars of prudent balance sheet management and forward hedging through the commodity down cycles. Here we are reporting on the eighth full fiscal quarter since natural gas prices began to drop, and even though commodity prices continue to scrape along at the bottom of the trough, NRG has continued to report nearly record results. Of course, it isn't our hedging alone that is achieving such a fantastic result, it's the strong contribution of Reliant, and that is where the prudent balance sheet component of the strategy looms large. If we had not been in a strong financial position when the financial tsunami occurred, we could not have acquired Reliant in the manner that we did.

Third and finally, consider that nine months ago, when we first announced guidance for 2010 of $2.2 billion coming off a record-shattering $2.6 billion EBITDA year in 2009, I told you that we were not satisfied with making $2.2 billion in 2010. I vowed to you on behalf of all the management and employees of NRG that we would work our hardest to do better. Today, with guidance revised significantly upward to $2.45 billion to $2.55 billion, we are fulfilling a good part but not yet all of that vow. We will continue to work our hardest to improve our 2010 result. We know that this is what you expect from the NRG team which you have infested your capital with.

Well, let's look beyond the numbers. As you know, one of the most significant characteristics that differentiates NRG is that, all the while that we are delivering best-in-class financial results, we also are working tirelessly to position the Company as both the optimal conventional competitive power company and as a first mover in America's clean energy economy future. As slide four indicates, we have five top priorities in respect of each of these two strategic tracks, and the progress we have achieved against all these priorities over the past couple of quarters has been highly satisfactory. I'm happy to speak with you at length about any and all of these priorities, but given time constraints I am going to focus most of my comments on the two most topical -- on the conventional side, our wholesale-retail model and, on the new energy economy side, our push towards being first mover in low carbon-based load generation, particularly new nuclear power. Success within our business model depends upon our success in maintaining our Reliant retail franchise through all commodity price cycles. The particular challenge in this commodity price cycle is preserving, growing and extending the franchise through this potentially prolonged commodity price trough in an environment where retail margins are healthy and barriers to entry appear low.

As shown on slide five, our approach is fourfold -- first, target pricing and marketing to a highly segmented mass market; second, a resurgent and coordinated sales effort across all customer classes, especially the C&I segment, an area of Reliant's business which was being affirmatively and intentionally discontinued under previous ownership and which is in the process of being rebuilt under our ownership; third, various initiatives that leverage off the customer service capabilities of Reliant in order to increase revenue opportunities; and fourth, brand extension to a range of products and services built around smart metering technology being employed in homes and commercial establishments around Texas.

Our fifth objective for Reliant, which is both an objective in its own right but also is the quality that underpins the Reliant brand and, as such, our ability to achieve the other four objectives, is our relentless focus at Reliant on customer care and customer satisfaction. Reliant is intensely committed to providing differentiated service across the entire customer lifecycle, and that commitment has paid off. As illustrated on slide six, Reliant has the lowest customer complaint percentages of all the Texas retail electricity providers. This has caused the Reliant brand only to enjoy the highest brand recognition in the key areas of ERCOT, but also the highest brand preference as demonstrated on the bar charts on the bottom right. Everything we do and everything Reliant is doing is designed to preserve and enhance that brand and increase distinction between Reliant and its competition. We are very confident that the things Reliant itself is doing in its communities with is smart meter program and with its customer service and that we at NRG are doing alongside Reliant in Texas, such as the windmills, the nuclear plant and the electric vehicle infrastructure, will further preserve and enhance Reliant's brand and NRG's retail advantage in Texas more generally.

What does all this mean to NRG's shareholders? We reproduced slide seven to remind you that, in our humble opinion, Reliant is being severely undervalued within NRG, given the reciprocal advantages that matching wholesale and retail provide to each other. The advantages are bulleted on this page. These advantages exist not only in theory, but we have amply demonstrated to the market over the past 14 months that they exist in practice as well. We have steadily and substantially reduced the capital required to collateralize the retail business through a continuous increase in the number of crossing trades we have done, and we have partially de-risked the business through a sequence of constructive hurricane risk mitigation products.

For the bottom line, it comes down to the earnings power of Reliant's retail business sustained through the extended trough of this commodity price cycle. It was just over a year ago that you were being asked to believe that Reliant was worth no more than $1 a share to NRG. And now, after just 14 months, Reliant already has generated over $1 billion in EBITDA for the Company, meaning that Reliant already has generated $4 for each NRG share outstanding. It's a very good start. It provides the proof of consistent performance which the market has sought and, as such, it's a good point for ascribing a fairer value.

Moving now to low carbon baseload, before we get to a discussion of our STP 3 and 4 project, let me say that, more than any other area of our business, renewables' demand-side management, fast-start gas, low-carbon baseload is, in my opinion, where it's going to be at over the next 20 years. This is where the winners among 21st century power companies are going to be crowned. And with NRG positioned to seize first mover status not only with new advanced nuclear but also with clean coal projects pivoting off the 60 megawatt carbon capture and enhanced oil recovery demonstration project we are developing with the assistance of the DOE at Parish, we are as well positioned as a company could be in this critical and valuable area.

Now, with that said, turning to the continuing saga of our STP 3 and 4 nuclear project on page 8, I have attempted to cut through the noise and the complexity of recent developments to put on one page everything important that you need to know about where we are and where we are going with this project.

Starting with Washington where activities continue as we speak both within the executive branch and on Capitol Hill to find a way to fund either the two or the three projects which remain in contention for nuclear loan guarantees, I'm here to tell you that I have absolutely no idea what funding method will succeed or how it will be achieved, but I can tell you this. Based on what I personally have witnessed in terms of the commitment of high officers of the Obama administration, the highly professional and constructive approach of the DOE staff and their advisers to our project and the nearly unanimous pledges of support from senators and representatives of both parties to the concept of additional funding for nuclear loan guarantees, I am more confident than I have ever been that our project ultimately will be awarded a nuclear loan guarantee from the United States government.

The question I cannot answer and the question that informs the basis for the spending decisions that I'm announcing here today is the question of when. I do not know when. This uncertainty about when is what makes it impossible for me to continue spending NRG shareholders' money at the rate which we have been spending through the months since CPS withdrew from the project.

Accordingly, having reduced our ongoing spent on the project last month from approximately $30 million a month to $7.5 million a month, a 70% reduction, henceforth from August 1 onward, NRG is capping its spend on STP 3 and 4 at $1.5 million a month, a 95% reduction from the burn rate just two months ago.

The good news is that, after extensive work in discussions with our partner, Toshiba Corporation, and with the other key parties involved in the project development, we have developed a plan depicted in very general terms on slide nine to keep the project fully on schedule through at least the balance of 2010. We have achieved this in significant part by reducing the project work streams only to those critical path matters which are absolutely essential to maintaining project schedule. We have achieved this in even greater part by Toshiba having agreed to carry the project more fully on its shoulders in the months to come, in the same way that NRG has done for the several months since CPS withdrew from the project.

For our part, while our work in Washington continues with the DOE and the legislative branch, we and our Japanese partners have opened formal discussions with the Japanese government financial institutions regarding Japanese co-financing for this important project. We are confident that the Japanese government and its lending institutions appreciate the importance of this project as much as do Toshiba and NRG. We also intend to focus extensively over the next several months on finalizing the EPC arrangements with a structure and at a price that the project can bear. And finally, in order to keep the project on track, we must over the next several months take our discussions on offtake arrangements with key counterparties to the next level of commitment. We recognize that this critical path workstream is as important as the federal loan guarantee workstream and that they are interdependent.

In summary, with respect to nuclear, as we undertook to do several months ago, we have dramatically scaled back our financial commitment to the STP project development, but we have managed to do so in a manner that keeps the project fully on schedule with critical work processes at the DOE, the NRC, Japan and at the site all sufficiently manned. We will determine over these next months of low NRG spend whether all the key elements -- the federal loan guarantee, the Japanese Government co-financing, and appropriate EPC arrangement and sufficient offtake arrangements -- can be brought together in a manner that enables the STP project, a project which is so critically important not only to NRG but also to the economy of the state of Texas and the zero emission energy objectives of the United States of America, to go forward.

Finally on slide 10, let me conclude before handing it over to John by bringing back slide four in a scorecard format so that we can grade our implementation to date against the dual strategy that we previously have articulated. On the conventional side or, as I prefer to call it, the classic NRG side, we're delivering superlative results, providing positive proof that the wholesale-retail combination works better than the pure generator or the pure retail model. Slowly but surely, we are revitalizing our gas fleet with brown fuel re-powerings or plant expansions completed at Long Beach, Cos Cob, Cedar Bayou and Devon, construction underway at Middletown and with a line of sight for El Segundo.

With respect to the fifth priority on the classic side, we have not appreciably expanded our conventional portfolio through acquisition, but we believe the current environment is an attractive market for asset buyers and that market dynamic is going to persist for at least a while longer. In terms of the right side, the transformative side where the nature of the objectives are inherently longer-term, we are very pleased with our progress in terms of the low-carbon baseload, not only with STP, which we have previously discussed, but also with our carbon capture and enhanced oil recovery project at Parish. Our multiple solar initiatives are proceeding exceedingly well, and you will hear much more about them in the months to come, and the projects that we are building in our various gas sites, particularly El Segundo, are going to be cutting edge in combining fast-start characteristics to firm renewables while providing modern CCGT efficiency and steady-state operations.

In short, I can assure you as shareholders of NRG that, while there's a lot that I'm very proud of as the CEO of your company, neither I nor the rest of the team that NRG will take our eye off the ball in terms of delivering another exceptional financial result in 2010, perfecting our classic competitive generation retail model and positioning the Company to be a leader in the transformation to a new energy economy.

Turning to John Ragan?

John Ragan ***NRG Energy - EVP, COO***

Thank you, David; good morning, everyone. During the second quarter of 2010, NRG continued to sustain the strong operating and commercial performance they achieved during the first quarter, solidly positioning the Company to enter the critical summer months. On slide 12 we've highlighted some of our second-quarter accomplishments. Our focus on safety across the entire organization, including Reliant, has remained strong within an OSHA recordable rate of 0.7 through the first half of the year, which continues to exceed the top decile benchmark for the industry.

During the second quarter our Encino plant was awarded OSHA's VPP Star designation. OSHA's Voluntary Protection Program or VPP, is a voluntary program that allows a facility to obtain one of the highest levels of safety recognition available within the power industry. To achieve this designation a plant must demonstrate to OSHA that both management and the employees have achieved an exemplary health and safety record in addition to creating a steadfast safety culture that is embraced by the entire organization. This is the first NRG facility to achieve this award outside of our Texas fleet and is a testament to our employees' desire across the organization to strive for continuous improvement in safety.

Our baseload fleet had another very good quarter of operational success with our plant personnel delivering strong performance. During the quarter we continued to face challenging market conditions caused by cycling and additional starts for our coal assets. This was followed by periods of extreme heat in June. Through these widely fluctuating conditions in multiple planned maintenance outages, our coal fleet reliability was better than the second quarter of last year.

Most notably, I want to point out the superior quality of quarterly performance of the Indian River and Limestone stations, both with E-4 below 2%, and the Huntley Station with an E-4 below 1%.

Our EPC group has continued to move forward with multiple construction projects. We have completed the Devon Peaking Plant in Connecticut, and these fast start units have been transitioned into our operating portfolio. Middletown is currently under construction and is expected to come online about this time next year. During the quarter we have also acquired and integrated the South Trent Wind Farm into our wind portfolio. And, lastly, we were successful in being awarded a $167 million DOE grant to design and construct a 60-Megawatt carbon capture and enhanced oil recovery system at our Parish plant in Texas.

Finally, our Commercial Operations Group has continued to effectively manage the hedging and dispatch of our wholesale generation portfolio in addition to executing the integration and risk management requirements for the Reliant Energy retail supply. This quarter was also marked by wins in additional load following contracts and portfolio hedges, which I will review later.

Now turning to our plant operation performance on slide 13, we have continued to operate our fleet safely and efficiently during the second quarter. While net generation and baseload availability were slightly off for the first half of this year as compared to 2009, this was primarily the result of three specific events within the fleet. These include a refueling outage at STP Unit 2 as compared to no outages at STP during the same time period during 2009; the movement of an outage from 2011 to the second quarter of 2010 for Limestone Unit 1 and a generator rotor outage at Dunkirk Unit 4 in January that was discussed during the first quarter earnings call. Our units did experience some limited fuel switching, primarily during the shoulder months of March and April, that impacted net generation. However, this was partially offset by strong load from weather-related events during the second quarter.

From a unit reliability perspective, our baseload E-4 for the second quarter was 2.05%, which is an exceptionally strong showing from our operations team. When taking the events into account that I previously mentioned, our overall plant reliability and availability during the first half of the year was solid and within our expectations for strong operating performance. We also recognize that in the low-margin price environment that we currently operate in, it doesn't always make economic sense to spend that last marginal maintenance dollar in order to achieve the highest possible availability statistics.

At NRG we are always making those analytical decisions based on real-time information. We can promise you that we are scrutinizing our spend relentlessly across the fleet and putting our maintenance dollars to the best possible use where we can capture the value of the last marginal megawatt hour while making the best cost-benefit decisions to be manage our overall plant assets.

Finally, on the chart to the bottom left, at the end of the second quarter we have achieved 50% of our full-year four energy targets. This achievement was accomplished through contributions from our retail, tax and other corporate departments, continued plant efficiency improvements within our generation fleet and the sale of Padoma. We are on track to complete this year's goals and have the potential of getting a head start on the 2011 targets.

Turning to our retail operations on slide 14, warmer than normal weather across Texas with cooling degree days above the 10- and 30-year benchmarks coupled with lower gas prices created an opportunity to deliver higher volumes and stronger margins from our Mass Market segment. The dramatic decline in the commodities last year allowed us to deliver margins significantly above our targeted run rate while the market became much more competitive. With the steady state of commodities this year, we have taken disciplined targeted marketing pricing and actions to begin to stabilize our customer count while maintaining strong margins, thereby driving towards higher customer retention levels.

At the same time, we have strengthened our sales channels and maintained our leadership in customer satisfaction and brand preference. The result for the quarter reflects an optimized balance between customer count and margin which is consistent with our long-term mass-market strategy for the Reliant brand and the specific customer segment we desire to serve.

In the C&I segment, we improved renewal rates of existing customers during the second quarter and extended the term and diversity of our portfolio while experiencing profitable margins within the segment. Reliant remains the largest C&I retail provider, the second-largest residential provider and the largest retailer overall based on volume in Texas.

Before I conclude the operations section I want to provide some thoughts on EPA's recently proposed Clean Air Transport Rule, or CATR, which was developed in response to the court's rejection of CAIR. The primary objectives of the new rule as compared to CAIR are outlined on slide 15.

The rule initiates new NOx and SO2 trading programs in 2012 with a second phase in 2014 which further lowers SO2 emission caps in certain states. The main difference between CAIR and CATR are, one, the inability to use acid rain allowances to meet CATR requirements after the program's implementation; and, two, the restriction on trading of allowances between group 1 and group to states for as SO2 compliance.

According to the EPA, the cap and allocations for 2012 are based on modeling current power plant operations with existing and planned controls across the industry. The key takeaway is that NRG can meet the 2012 NOx and SO2 caps without any new environmental construction requirements.

As we elaborate on slide 16, NRG's fleet is well-positioned vis-a-vis the proposed CATR rule, specifically, our existing plans for additional environmental capital projects remains unchanged. CATR does not include Texas in the SO2 program; therefore, our Parish and Limestone units will not need to hold SO2 allowances. Having separate group 1 and group 2 SO2 trading allowance restrictions does not impact NRG's ability to comply with the program. Our assets in New York and Pennsylvania, which are group 1 states, already have SO2 controls and will not face additional incremental CapEx requirements to meet the 2014 cap. And, lastly, as older, uncontrolled plants are at risk of retirement, NRG hopes to benefit from changes to higher heat rates and power prices.

In summary, the proposed CATR rule is anticipated to have very little impact on NRG's plant operations and currently forecasted capital spend. Additionally, while EPA has acted in a very proactive way to address both NOx and SO2, they have done so by working constructively with the industry to achieve the desired area mission goals. As we have been saying since our investor conference last fall, we believe the EPA will take a pragmatic and moderate approach to current and future air standards.

Therefore, based on their actions to date, we believe that any future EPA regulations will be similarly pragmatic to allow the industry sufficient time and means to approach compliance.

Moving to our hedge profile and commodity sensitivities on slide 17, as we have reviewed with you many times on prior calls, we continuously seek opportunities to lock in additional hedges, hedging power during the up cycles and [cold] during the down cycles. As illustrated in the chart on the top left, our wholesale and retail segments continue to be well hedged over the next few years. Basedload generation is fully hedged for the remainder of this year, and we have increased our hedge position for 2011 to approximately 86% from 73% last quarter. During the quarter we have focused our hedging strategy for 2011 on using option structures similar to the strategy we implemented in 2006. This hedge structure helps to protect us from further downward gas price movements while retaining some upside for positive upward price movements.

Based on NRG's view that gas prices reached their floor during 2009, in a time when demand was significantly off and supply was plentiful, we believe that the last half of 2010 and 2011 will provide opportunities to continue to hedge our portfolio at higher gas prices than the current forward market.

Concerning our retail business, our hedge positions have increased during the quarter, as shown by the cross hatches. We will continue to increase our hedge percentages as we execute on aggregating fully priced retail load.

The chart at the top right illustrates our coal and transport positions. During the quarter we were successful in executing a fairly priced and beneficial multi-year transportation contract for our Western New York coal plants. Based on the current supply-demand factors for PRB coal, we don't expect any significant upward commodity pricing pressure in the foreseeable future.

Lastly, moving to the chart on the bottom left, as is customary with our hedge profile, we have limited our sensitivity to gas and coal prices and heat rate movements through 2011.

Turning to review market fundamentals on slide 18, the quarter-on-quarter demand growth for ERCOT continues to show solid trends for recovery and positive growth on a year-over-year basis, particularly in comparison with PGM, where weather-normalized load growth continues to be fairly stagnant. However, during the second quarter, warmer than normal weather drove significant load increases across all three northeast operating systems with peak load recovery in close to 2008 demand levels and total load up 6% to 7% across the region as compared to Q2 2009.

In Texas forward heat rates have continued to be well supported during the first half of the year, due to increasing demand recovery, tighter supply, potential for future plant retirements and the continued lack of capital market access for non-PPA projects.

So I would like to end by saying that we are very well positioned operationally and commercially to deliver on our revised set of financial objectives for 2010.

Now I will turn it over to Chris, who will discuss our financial results.

Chris Schade ***NRG Energy - CFO***

Thank you, John. Good morning, everyone, and thank you for joining us to discuss the second quarter and year-to-date financial results achieved during my first quarter as CFO.

Let's begin with a brief overview of our achievements during the second quarter on slide 20. As David previewed earlier, the Company delivered strong financial results in the second quarter, totaling $693 million of adjusted EBITDA. Reliant Energy contributed $195 million of adjusted EBITDA. Robust gross margins in our retail business benefited from favorable weather conditions and a favorable commodity environment.

Meanwhile, the Wholesale business contributed $498 million of adjusted EBITDA, only $19 million lower than Q2 2009 performance. The year-on-year difference was affected by a refueling outage at STP unit 2 and a major planned outage at unit 2 of our Big Cajun facility, which occurs every six to eight years. Baseload generation in the Northeast was comparatively flat but, due to hotter than normal weather during the quarter, oil and gas generation increased 20%. Benefiting our wholesale performance was increased capacity pricing in New York City as well as new projects that came online as a result of our repowering and renewable initiative, including Cedar Bayou 4, (inaudible) Solar facility and the Langford wind farm.

Year to date EBITDA for the first six months was a record $1.294 billion, representing a 6% increase over $1.224 billion generated in the first half of 2009. The addition of Reliant energy added $385 million of EBITDA as favorable weather drove an 11% increase in customer usage, partially offsetting a 2% decline in average customer count. Also the improvement in customer payment patterns we mentioned in the first quarter continued into the second quarter.

Meanwhile, the Wholesale business generated $909 million of adjusted EBITDA for the first half of this year -- solid results despite a low commodity environment. The strong quarter and year-to-date financial results were directly influenced by our strategic forward hedging program and the continued focus on operational excellence. Our record results also reinforce the benefits of our strategy of owning both generation and retail in Texas.

Finally, on this slide I want to touch briefly on our liquidity position, as I will review it in more detail on the next slide. We ended the first half of 2010 with total liquidity of $3.5 billion, an increase of $290 million from the end of the first quarter. Cash on hand of nearly $2.2 billion provides ample capacity to serve our capital structure objectives and current capital allocation strategies. Of particular note during the second quarter, we successfully completed the amend and extend of our first-lien facilities, an important step in improving the financial flexibility of the Company. The highlights of this transaction include extending the maturities from 2013 to 2015 for $1.8 billion combined for our term loan facility and synthetic LC and refinancing our revolver to $875 million while extending its maturity to 2015. The results of this transaction provides NRG with improved LC and term funding capacity to support our future growth initiatives.

Now for a more detailed discussion on our capital allocation, please turn to slide 21. Again, the Company's strong liquidity position as of June 30, which, excluding funds deposited by hedging counterparties, stood at $3.5 billion. While liquidity is up from the prior quarter, I would like to review the year-to-date change of $294 million as of June 30 from year-end 2009. This difference is largely explained by debt repayments of $459 million, which included a reduction of the term loan B debt of $240 million and the settlement of the common stock fund of $190 million; capital expenditures net of project funding of $294 million, consisting primarily of $70 million of normal maintenance CapEx, $88 million of environmental CapEx and $125 million for NINA; acquisitions of $141 million net of financing related largely to the purchase of South Trend and Northwind Phoenix and share repurchases totaling 2.2 million shares at a volume weighted average price of $22.58 for $50 million. We are in a very comfortable liquidity position, allowing us to complete the remainder of our $180 million share buyback program before year end as well as continue to be opportunistic about intrinsic and extrinsic capital investments to enhance our retail, wholesale and renewable businesses.

We will continue to review our options to increase returning value to our shareholders and will evaluate the possibility of increasing our share buybacks later in the year. With respect to the restrictive payments basket and certain of our bond indentures, we have decided for now not to offer bondholders a payment for relief of this covenant. We believe the costs required to ensure a successful amendment of the current RFP restriction to be prohibitive, particularly when compared to upcoming call prices embedded in the bonds' original issuance.

Finally, to date, our successful hedging strategy has provided stability to our EBITDA results, and in the future we will continue to hedge our baseload business when appropriate. With that said, as you can see from this slide, we have ample capacity to execute on hedges in the out years under our first lien structure, which preserves other sources of liquidity necessary to assist our future growth.

Now turning to our full-year guidance slide on slide 22, we have increased our full-year EBITDA guidance to a range of $2.45 billion to $2.55 billion, an increase of $250 million to $350 million from earlier projections. Going forward, we will continue to provide full-year EBITDA guidance as a range. We believe a range of EBITDA results better captures unanticipated volatility and certain factors that may impact our results, such as weather changes and fluctuations in the underlying commodity markets. Our goal will be to narrow our ranges as the year progresses and final results become more certain.

Alongside this update in EBITDA guidance, we are also updating free cash flow guidance to a range of $816 million to $916 million, an increase of $354 million to $454 million. In addition to our strong operating results, the increase in free cash flow is a certain beneficiary of our decision to dramatically reduce the spend on the STP nuclear projects until there is clarity on the prospects for receipt of a DOE loan guarantee.

In closing, as David pointed out earlier, we continue to drive this business to focus on cash and, based on Friday's closing stock price of $22.68 and our updated outlook, the recurring free cash flow yield currently stands between 22% to 24%, or $5.06 to $5.45 per share.

With that, I'll turn it back to David for closing comments and questions.

David Crane ***NRG Energy - President and CEO***

Thank you, Chris. I think we're prepared to take any questions that callers may have.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Dan Eggers, Credit Suisse.

Dan Eggers ***Credit Suisse - Analyst***

David, I was wondering if we could just go to South Texas for a minute. Can you just maybe revisit or talk through a little more the thought process from the timing of the major components when you could reasonably expect decisions on major things like US loan guarantees, Japanese loan guarantees, EPC contracting of PPAs, equity sell-down? And are there certain pieces you see as contingent of getting done before the other pieces can get done right now?

David Crane ***NRG Energy - President and CEO***

Well, Dan, I could take the air out of the ball for the remaining 18 minutes of this call in terms of answering that question, but I'll try and give you the short form.

I think the way that we've gone around planning South Texas and the new reality is around this fact that we just literally have no idea when the US government will do the two things -- the Department of Energy actually finish the loan guarantee process, hopefully in a positive fashion, and the money be appropriated. It's really the second part that's more uncertain. We are really at the final stages with the DOE, with negotiations of the loan agreement complete.

But as to when the money would be there for an award, to be frank, as I'm told, it could be today or, worst case scenario, if it gets to be part of the 2011 budget appropriations and that takes the track that it's taken in recent years, it could be as far away as next February or March. So that's really the timing horizon that we've looked at in all of those critical decisions. And we expect to have all the four things I talked about resolved within that time period, so the US government financing, the Japanese government financing, the EPC and the off-take.

In terms of further sell-downs, Dan, I would say that's the one thing that's really changed in this because our motivation to sell down early in the project was actually to reduce the amount that we were spending every month. Left to our own devices, if we weren't spending as much as we were spending, we would prefer to sell down later rather than earlier because the project gets more valuable as it gets towards closing. So, since our spend rate has been cut by 95%, I think the one other significant change in terms of the things that you mentioned is that you probably shouldn't expect additional sell-downs unless they are for highly strategic reasons until we get these other four main critical path items resolved.

That's the best short answer I can give. Did you want to follow up on some aspect of that?

Dan Eggers ***Credit Suisse - Analyst***

That's fine, and I can take the rest of it off-line. But the other question -- I guess maybe if you could talk to in this venue is, coming into the year, you guys talked about the amount of economic exposure NRG has for shareholders in the project and what kind of cash unwind or commitments would be required if the project weren't to have gone forward when you were negotiating with San Antonio. Can you give an update on where that stands and where you guys have gone as far as future development commitments have been made beyond your CapEx run rate right now?

David Crane ***NRG Energy - President and CEO***

You are saying, if the project would actually be canceled, would there be exposure beyond the cash that we already have sunk in the project?

Dan Eggers ***Credit Suisse - Analyst***

I guess, yes, I assumed there would be, and I guess it's just kind of the magnitude of potential exposure.

David Crane ***NRG Energy - President and CEO***

I think, in terms of -- first of all, there are not a lot of hidden commitments. If the partners -- and one thing I want to emphasize here, and I apologize to all our shareholders because I may not have spoken as accurately as I should have about the way this works. When we talk about like shutting down the project, this project, like every other jointly developed project I've ever been in, in my life -- one party does not have the right to shut down the project. One party only has the right to reduce or stop their spend in the project. The other party always has the right to unilaterally go forward.

So when I talk about our decision making in terms of actually shutting down the project, let's assume we have a joint decision of Toshiba and NRG to shut down the project. I think our overall sense is that, while it would take a few months of wind-down spend and money spent on demobilization and the like, there are not like enormous commitments that have not been disclosed before. I think the overall commitment of the Company would be in the $500 million range, which is -- but that $500 million includes the money that Toshiba has put to date, so that's more of an earnings number. You would have to deduct the $150 million from Toshiba to get the cash exposure of NRG.

Operator

Lasan Johong, RBC Capital Markets.

Lasan Johong ***RBC Capital Markets - Analyst***

David, if Toshiba is accelerating spending and NRG is reducing spending, does that mean that, should the project either go forward or not proceed, that there is going to be some makeup on NRG's part going forward after the decision point is reached?

David Crane ***NRG Energy - President and CEO***

If you are saying, as part of this arrangement with Toshiba that there would be some sort of reimbursement agreement that the --

Lasan Johong ***RBC Capital Markets - Analyst***

Yes.

David Crane ***NRG Energy - President and CEO***

-- if it goes forward? The answer to that question is no. There's no reimbursement agreement. We tried to depict on page nine -- and, Lasan, this is a work in progress. But in terms of funding the work -- again, I wouldn't say that -- just make sure that we are 100% accurate with the words. I'm not sure Toshiba is accelerating the payment. They're just bearing more of the ongoing costs. The spend rate of the project is being reduced from about $30 million a month to about $20 million a month. In terms of the part of that, the very significant part of that that NRG is not going to be funding, what we are showing on the right-hand side of page nine is the various alternatives that Toshiba has to bear that cost. And it could be vendor financing or there's the TANE credit facility. Toshiba also has the option of doing it through equity in NINA, in which case there would be some dilution of NRG. But there's no reimbursement agreement we've entered into to cause us to have to make up the cost that Toshiba is bearing in these months going forward.

Lasan Johong ***RBC Capital Markets - Analyst***

Just as a follow up to the SCP issue, if NRG felt that this was not a project that was good for shareholder value, either because you couldn't sell down the shares or you couldn't get financing or you can't get a long-term contract or you can't get DoE loan funding, does that imply that you have no hesitation in pulling NRG out of this project?

David Crane ***NRG Energy - President and CEO***

Well, we could, but -- that's possible, but what I would tell you is we are announcing today that we've cut spending on the project by 95%. That is -- from a point of view of removing the burden from the shoulders of NRG shareholders, I would say that that's a very significant step. If we decided and Toshiba agreed that the project really made no sense to go forward, would we cut from $1.5 million a month to zero? I don't think we would do that immediately because there's significant value in the project. First of all, we would probably keep the license going to conclusion, given how far we've come. And between some long lead time items that we've ordered, the intellectual property involved in the application process, the design, the Americanization of the Japanese ABWR design -- we are talking about a set of development assets that have significant value, and we would certainly not just throw those into the ocean. I think we would keep a team going to see if we could monetize that value.

Operator

Angie Storozynski, Macquarie.

Angie Storozynski ***Macquarie - Analyst***

Two questions about Reliant. First of all, should we assume that the ongoing EBITDA for this business is actually above your previous expectations? And, also, any comments regarding the cost level, especially the G&A and selling expenses? Should we assume that there's simply a lower run rate going forward?

David Crane ***NRG Energy - President and CEO***

Well, I may ask Jason to answer the second question. Let me just say on the first question, I think, if I'm getting your question right, clearly we've upgraded the expectations of Reliant for all of 2010. We haven't changed what we've considered, what we've said before is like a mid-cycle run rate of $300 million. I think the question out there is that, how much money can Reliant make on a steady state business during a prolonged trough in the market? I think that's what we are gearing our strategy for.

Clearly, if we believe that Reliant is going to make in the range of $600 million this year, it's not going to revert to $300 million going from December 31 to January 1, 2010 to 2011. So we don't have a perfect insight into this crystal ball, but I would say that, clearly, we are impressed with the resilience of Reliant's ability to out-earn this mid-cycle return during a prolonged trough, and we're doing everything in our power to extend that, as long as possible.

As to the cost structure, Jason?

Jason Few ***NRG Energy - President - Reliant Energy***

Yes, Angie. on the cost structure we have taken action to actually reduce our overall G&A, and we continue to do that not only as part of our four NRG efforts, but just overall in terms of operational efficiency and other things we are doing from an automation standpoint in our business. So you should assume that you will see reduced G&A in our business.

Angie Storozynski ***Macquarie - Analyst***

Okay, one more question, then. How about the new contracts? We heard from other competitive retail providers that there seems to be higher competition, which is partly related to low volatility in natural gas and power prices. Should we assume, then, that new contracts that you are signing are actually at compressed margins versus now, for sure; but versus your expectations?

Jason Few ***NRG Energy - President - Reliant Energy***

As you know, we don't give segment level, but I'll answer it in two ways. We are actually seeing, although on lower volumes on our C&I business, actually our margins are up for Q2 versus Q1. And on our residential side of our business or mass side, we have taken deliberate pricing actions to actually bring down margins to respond to competitive pressures in the market. So overall, on the mass side, you've seen some of that compression, which is intentionally driven. And on the C&I side, we are actually seeing the ability to create some expansion there.

Angie Storozynski ***Macquarie - Analyst***

That's for new contracts? That's not for realized margins, that's for new contracts signed during the quarter?

Jason Few ***NRG Energy - President - Reliant Energy***

For new contracts; that's right.

Operator

Ameet Thakkar, Merrill Lynch.

Ameet Thakkar ***Merrill Lynch - Analyst***

Good morning, guys, congratulations on a good quarter. Real quick, on the Texas wholesale it looks like the EBITDA was relatively flat versus the prior year. And looking at your hedge disclosures and your 10-K, we look like (inaudible) the equivalent price of gas that you were hedged at was $8.37 in '09 and something closer to $7.70 in 2010. So I was just wondering how do you were able to keep EBITDA flat at that business when volumes looked like they were actually down slightly.

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

Some of the revenue comes from ancillaries. We've been able to position our portfolio to take advantage of a higher or [jucier] ancillary prices. As you think about our portfolio, as we are -- our fuel solid -- our solid fuel portfolio ramps down during off-peak hours. We've become basically the least-cost provider of ancillary services. And during on-peak hours our gas portfolio can meet those obligations. So, think of our portfolio of the least-cost provider of ancillaries. And as these ancillaries increase in price, we have been able to position ourselves to mitigate some of the lower gas prices that you mentioned and that we have experienced in the business. That is one of the drivers.

Ameet Thakkar ***Merrill Lynch - Analyst***

You guys are 112% hedged in 2010. And I think you guys talked about this on the last call -- some of that is maybe just a little bit less volumes expected. But how do I think about you being over hedged? Are you basically booking additional trading-related revenue because you were essentially short the market more than the fleet is expected to run?

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

I think you already addressed the first reason. We were hedged against the expected levels that we had back in October of 2009. As the gas prices have decreased, our expected generation has decreased with it. We have not pared down completely our hedges. We want to be consistent with our market view, and I think it's pretty simple to deduct that we were somewhat bearish of the front part of the gas market, and we didn't see the need to change our [hedge] profile for the balance of 2010.

Operator

Neel Mitra, Simmons & Co.

Neel Mitra ***Simmons & Co. - Analyst***

I just wanted to follow up on Ameet's question on the strong Texas outperformance, specifically on the increased ancillaries sold to Reliant. I was wondering if you could quantify that. And then also, why would the ancillary services revenues go up this quarter versus last year with, I guess, lower gas prices continuing to occur?

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

Well, Neel, one of the benefits of combining wholesale and retail is the stability that it provides to our generation portfolio in ancillary services but also shape products and optionality that the Reliant business needs to manage the low variability. So this is just a -- I would consider a perfection of hedging wholesale and retail after 14 months of ownership.

With respect to the ancillary question, I think people try to get -- as you look into 2000 -- two years out, the market tends to pay up for insurance in the form of ancillaries. So we have been able to capitalize on that back in 2008 going into -- back into 2009 going into 2010. So I think the combination of combining wholesale and retail and providing these ancillary products as well as the market being able to pay up for ancillaries -- I think that's a combination that has provided or that has mitigated some of the downside risk on gas prices for our Texas fleet.

Neel Mitra ***Simmons & Co. - Analyst***

And, Mauricio, the new collars or put options that were added this quarter -- can you guys quantify how much the cost of those options are and where they would show up, I guess, in expenses?

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

Well, I don't believe we have disclosed the absolute amount of the cost. What I will tell you is, most of hedging that we did in 2011 was under the collar structure. So moving it from the low 70s to the mid-80%, it was (multiple speakers) [incremental] on the back of the collars that we executed.

Neel Mitra ***Simmons & Co. - Analyst***

Okay, great, thank you. Congrats on the good quarter.

Operator

Jay Dobson, Wunderlich Securities.

Jay Dobson ***Wunderlich Securities - Analyst***

I was wondering if you could go back to STP and NINA. On the offtake agreement, you went by it somewhat quickly in your prepared comments. But I interpreted it to be that you were going to be focusing there a bit more. And, if I got that properly, maybe confirm that, and then what exactly you mean in light of the ongoing uncertainty.

David Crane ***NRG Energy - President and CEO***

Well, Jay, it's a good question, and you surmised correctly when you say that we plan on focusing on it a bit more over the next several months. I think one way to look at it simplistically is that, really, the STP development project has three work streams. The one which I think when people started we would talk the most about, which was the regulatory approval workstream at the NRC. We don't ever talk about that anymore because it's working perfectly, it's right on track.

It's the other two work streams. One is how to get money for the project and then, of course, the commercial arrangement. And there's been a lot of focus on the getting money work stream because of the DOE loan guarantee process. But the third work stream is the offtake. The offtake -- the uncertainty that has caused us to not push so hard on the offtake thus far is not really related to the money, it's more related to the fact that you have to have a solid EPC price in order to talk to offtakers about the power and what it's going to cost. And we are getting much closer to a conclusion there in terms of getting a final EPC price that we then can work and do something more specific to take to the offtakers.

And so we expect in the second half of this year, maybe spilling into the first quarter, to be looking for binding commitments from the several people that we've been talking to about long-term offtake for the project.

Jay Dobson ***Wunderlich Securities - Analyst***

That's great, perfectly adds to your prepared comments.

And then on a separate topic, Devon, I assume that wasn't synchronized with the grid in time to give us any benefit in the second quarter. So your comments are, it sort of got done late June/early July and moved forward from there. Is there a COD date, I guess I'm asking, on that?

David Crane ***NRG Energy - President and CEO***

Well, it's multiple units, John. I think a couple came on in June.

John Ragan ***NRG Energy - EVP, COO***

We had three of the four units come on in June, kind of spaced out on a one-week basis, so they were synchronized to the grid during June -- three of the four units.

Operator

Michael Lapides, Goldman Sachs.

Michael Lapides ***Goldman Sachs - Analyst***

Just had a question, was thumbing back through the K the other day. Can you walk us through which of your coal plants you expect to spend capital on for environmental retrofits and just the timing of that? Can you also walk through, with contracts expiring in 2014 at Big Cajun, how the cost of that gets recovered from your counterparty?

David Crane ***NRG Energy - President and CEO***

Well, Michael, first, if you were just thumbing through the K, I've just got to say, with due respect, and I love you as the brother I never had, you know, get a life. You've got to have better things to do with it. But on the coal, John, do you want to -- ?

John Ragan ***NRG Energy - EVP, COO***

Sure. Right now, we've finished all the work at Dunkirk and Huntley. We are currently putting controls in place on Indian River 4. As we had mentioned earlier this year, we stopped work on Indian River 3 and completed a new structure with Delaware that allows us to continue to run that unit for a period of time and then shut down. So that's really where our CapEx is being spent right now.

Regarding the [lodge in] assets, again, we see these being able to recover that CapEx in new contracts that we structure with the co-ops in Louisiana. So we do think that we can get recovery for that CapEx when those controls are put in place.

Michael Lapides ***Goldman Sachs - Analyst***

And, in Texas -- what are you planning in terms of environmental CapEx in Texas?

David Crane ***NRG Energy - President and CEO***

Again, right now we are doing the engineering work to determine what we need to do. But again, until we get a better sense of the macro around asset gases, it's a little more difficult to determine exactly what we will do there. If, as we expect EPA to be pragmatic around how they go about facilitating the reductions, again, we don't see the worst-case scenario where we have to control unit by unit. So until we have a better sense of that, it's a little hard to say how the CapEx will be spent in Texas.

Michael Lapides ***Goldman Sachs - Analyst***

And on South Central, a little confused about the cost recovery. Your hedge prices there roll up to about $50, $51 a megawatt hour; forward energy prices, kind of the low 40s. So, even if you put a capacity payment on it for a combined cycle, it would get you mid-to high -- really high 40s, low 50s. I'm a customer. Why do I do it?

David Crane ***NRG Energy - President and CEO***

Well, I think there are a few things going on. First of all, I think that you -- first of all, we are sensitive to the fact that the co-ops, like everyone who serves load, are very price sensitive. And it's one thing to say that we have the right to charge it through. And, at least for the customers whose contracts expire in 2014, they obviously have the right to not renew.

But I think when people have looked at this issue with South Central, they've exaggerated the ease with which a customer to Louisiana generating could switch because it's a constrained transmission system down there. Our plants have the transmission rights to serve these customers who, as you know, are spread all over Louisiana.

So it may not be as straight -- look, I can get a price, 2% lower from someone else that you are suggesting. It's a more complicated assessment.

Having said that, like I said, we want to work with the co-ops to smooth out the path and get the right outcome for them and their customers. Mauricio, did you have anything to add on that?

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

Well, the only thing that I would add is the -- or emphasizing the congestion aspect of it. We have firm transmission to the customer. The customer has firm transmission from our facilities. Anybody else who wants to serve that customer will have to have firm transmission, which could potentially require cost transmission upgrades or redirect our transmission cost. So that puts us in a competitive advantage with respect to a generic combined cycle economics in the region.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold ***Deutsche Bank - Analyst***

A question on STP, and just if you could clarify what the status of the TEPCO investment is that was announced on the last quarterly call. I apologize if I didn't glean this from the prepared remarks. I wasn't quite sure what you said on that.

David Crane ***NRG Energy - President and CEO***

Well, the TEPCO investment is conditioned upon receipt of the DOE loan guarantee, so it hasn't happened yet. Having said that, TEPCO has been a technical advisor to the project from the beginning. And since they fully expect the DOE loan guarantee to come through -- we are working with them, but the trigger for the injection of the first funds from TEPCO has not occurred and will not occur until the DOE loan guarantee is received.

Jonathan Arnold ***Deutsche Bank - Analyst***

Okay, so there's nothing else that has changed on that front? It's just part of the working through the Japanese financing aspect?

David Crane ***NRG Energy - President and CEO***

Well, no. When you say Japanese financing, to me you're talking about the Japanese government co-financing on the debt side, which TEPCO is working with us to get those funds or those guarantees from the Japanese government. No; I'm talking about the TEPCO equity investment, which is not related to Japanese financing. It's actually related to DOE financing. Once the DOE award is granted and accepted by us, then that will trigger their injection of capital into the I think 155 -- that would be the trigger for them to inject $155 million into the project.

Operator

Brandon Blossman, Tudor Pickering & Holt.

Brandon Blossman ***Tudor Pickering & Holt - Analyst***

Good morning, good quarter, congrats. Most of my questions have been asked and answered, but just to make it explicit, wholesale 2010 guidance up $110 million to $150 million. What has changed, in your view, for the year?

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

Two things -- one is the Texas fleet being able to serve or sell premium products to Reliant. And then the second is some upside on the Northeast markets. We just saw very little fuel switching, particularly around the March and April time frame. All the other months, we've been running pretty healthy on our solid fleet.

Brandon Blossman ***Tudor Pickering & Holt - Analyst***

Okay, so it should -- to be fair, it is largely Reliant retail-driven for the guidance uptick, both explicitly on the retail side and implicitly on the product transfer pricing picture?

David Crane ***NRG Energy - President and CEO***

Well, but your question was on the wholesale side. I think we split out the extent to which it was Reliant and the guidance on slide 22. But, yes, but on the wholesale side, it was both Texas and the Northeast.

Brandon Blossman ***Tudor Pickering & Holt - Analyst***

It continues to be a great acquisition. And just a smaller question -- a little bit of hedging in '11; you mentioned it was largely option based. Is that just gas collars, or is there some power in there also?

Mauricio Gutierrez ***NRG Energy - EVP, Commercial Operations***

It's primarily gas collars.

Brandon Blossman ***Tudor Pickering & Holt - Analyst***

Great, thank you guys.

David Crane ***NRG Energy - President and CEO***

Well, thank you very much, and operator, thank you for your assistance. Again, thank everyone for tuning in on Monday and for your interest in NRG.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

THOMSON REUTERS

PLACEHOLDER TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2010 NRG Energy earnings conference call. My name is Lamera and I will be your operator for today. (Operator Instructions). I would now like to turn the conference over to your host for today's call, Ms. Nahla Azmy, SVP of Investor Relations. Please proceed.

Nahla Azmy ***NRG Energy - SVP, IR***

Good morning and welcome to our third-quarter 2010 earnings call. This call is being broadcast live over the phone and from our website at www.NRGEnergy.com. You can access the call presentation and press release through a link on the Investor Relations page of our website. A replay of the call will be available on our website.

This call, including the formal presentation and question-and-answer session, will be limited to one hour. In the interest of time we ask that you please limit yourself to one question with just one follow-up.

And now for the obligatory Safe Harbor statement. During the course of this morning's presentation management will reiterate forward-looking statements made in today's press release regarding future events and financial performance.

These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We caution you to consider the important risk factors contained in our press release and other filings with the SEC that could cause actual results to differ materially from those in the forward-looking statements in the press release and this conference call.

In addition, please note that the date of this conference call is November 4, 2010. Any forward-looking statements that we make today are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of future events, except as required by law.

During this morning's call we will refer to both GAAP and non-GAAP financial measures of the Company's operating financial results. For complete information regarding our non-GAAP financial information from our directly comparable GAAP measures and quantitative reconciliation of those figures, please refer to today's press release and this presentation.

Now with that, I would like to turn the call over to David Crane, NRG's President and Chief Executive Officer.

David Crane ***NRG Energy - President and CEO***

Good morning everyone. Let me start by introducing my colleagues here participating in this presentation. I am joined by Mauricio Gutierrez, our Chief Operating Officer, and by Chris Schade, our Chief Financial Officer. Also available to answer your questions will be Jason Few, who runs our -- the Reliant retail business on our behalf, and Chris Moser, who is responsible for Commercial Operations at NRG.

So to begin, as we know, the equity markets are relentlessly forward-looking, so I'm going to spend most of my time looking forward as well. But I do want to dwell for a moment, and you should be looking at slide three if you are following along in the presentation, on what this Company accomplished in the third quarter of 2010 and what we are in the process of accomplishing year to date.

We had another exceptionally strong performance with our second best ever quarter from an EBITDA perspective. With an able assist from favorable weather, but most importantly thanks to our exceptional operating performance and robust hedge position, we largely mitigated the impact of gas prices trending relentlessly downward and heat rates moving sideways to post $777 million of adjusted EBITDA and $536 million of cash from operations.

Certainly our already strong current liquidity position was enhanced during the quarter by the bond financing that we did in August. But our liquidity was also strengthened, as it has been for many quarters in a row, by a very substantial contribution of free cash flow from the Company's operating assets and businesses.

Our strong performance year-to-date allows us to narrow our full-year 2010 guidance to the top end of the present range. And while I had in my aspiration from the beginning of the year to reach the $2.6 billion level, which would have put us flat against our record shattering performance in 2009, I am nonetheless very proud given the gravitational pull of near-term gas prices that we are on our way to a performance in the $2.5 billion range.

Indeed, you may recall that 12 months ago in the course of announcing an initial EBITDA guidance for 2010 of $2.2 billion, I conveyed to you that as a management team we were not satisfied with that number, and we made a commitment to you, our shareholders, that we would not rest until we had improved substantially on that number. I feel that under the circumstances we have delivered on that commitment.

Today I'm here to make another such commitment. As Chris will outline for you, we are initiating guidance for 2011 in the $2 billion range. Our financial prospects in this, the third year of commodity price recession, once again being subjected to the downward pressure of a significantly lower gas curve, our commitment to our shareholders again this year is that we will not rest until we have substantially improved our performance against the standard of this initial guidance.

I can't promise you anything specific today with respect to our next fiscal year, which obviously doesn't begin for another two months, but if you check our record over the past six years I think you'll find that we have been pretty successful in exceeding expectations regarding our current operating and financial performance.

I want to devote the remainder of my time to comment on a few important components of our strategic positioning of this Company. Many of these areas of our business figure prominently in the thoughts of our investors since they have been in the news recently or will be in the near future.

The Company's strategic approach is in general terms depicted on slide four, five conventional priorities and five transformational green energy priorities. I feel that we have made significant progress against all 10 of these priorities year-to-date. And during Q&A I would be happy to talk about any or all of them, but due to time constraints I am going to limit my prepared remarks to the four Rs, reactors, renewables, retail and CCP acquisitions at a significant discount to replacement costs.

Our goal in respect of our conventional business, as shown on slide five, is to build our business on the foundation of a multifuel across the merit order geographically advantaged generation portfolio at scale in each of our core markets. And in our principal market, which of course is Texas, matching up that diversified generation portfolio with a retail electricity business also at scale.

As such, in this area the four Rs are where much of our opportunity lay. In the case of the new advanced nuclear power there are two more Rs which are important. The first R is replacement power. Our nation's solid fuel baseload fleet is very old and rapidly getting older as little to no new baseload generation is being built. The oldest quartile of baseload generation this country needs to be replaced over the next decade, and given the development lead times for solid fuel generation, our view is that those of us who get started now will be advantaged.

The final R stands for renaissance, and it is not yet clear how robust the nuclear renaissance will be here in the United States. But it is very clear that the world at large is well down the path towards a global nuclear renaissance worth hundreds of billions of dollars, if not trillions. And the owners and developers of the first new nuclear plants in the United States are going to have a very beneficial first mover advantage in that nuclear renaissance.

But of course, to secure first mover advantage of the nuclear renaissance you actually have to have a first mover project. The status of STP 3 and 4 have not changed significantly since our previous quarterly call. The lack of visible progress was expected since the gating item for most meaningful steps forward on the project, such as additional equity partners, has been and continues to be the DOE loan guarantee process and the related issue of funding appropriations.

Since Congress has been in recess for most of the last three months, it is not surprising that there has been no development on the additional appropriation. Nonetheless, significant progress continues to be made on all key fronts below the surface. From the perspective of NRG's shareholders we believe you should evaluate the present arrangement with respect to STP as illustrated on slide six as follows.

NRG has a limited obligation currently at $1.5 million a month, an obligation to our partners to contribute to ongoing development spend until the loan guarantee is received and accepted. Nonetheless, recognizing NRG's very substantial financial contribution to the project development to date of approximately $315 million, including a significant amount which was funded during the first half of this year as a result of NRG assuming CPS' share of the overall development spend, the project remains fully on schedule.

This is due to the much appreciated stepped-up contribution of our partner, Toshiba Corp. And we remain very much in contention for the valuable nuclear loan guarantee from the Department of Energy. As such, during this phase the STP 3 and 4 development should be perceived by NRG shareholders as a low-cost option on a very large benefit opportunity with clearly defined exit ramps.

Of course, the news affecting nuclear development in the United States during the past several weeks has had little to do with STP and much to do with the Calvert Cliffs project and the loan guarantee fee issues cited by Constellation as their reason for withdrawing from the project.

What I would tell you is that, notwithstanding the superficial similarities between the two projects, and this is shown on the left side of slide seven, the two projects actually are structured very differently. Obviously, they are in different markets with different rates of projected baseload growth, but also they involve different risk allocation with respect to technology, completion risk and merchant offtake.

We do not yet know precisely how these differences will play into the government's analysis of the loan guarantee fee for STP, but the government is well aware of these structural differences because they have been discussed at length by us with the DOE.

As I have tried to depict on the right side of this page, we believe we are in the midst of final stages of the government's determination of this issue, and so hopefully we will be in a position to advise our investors within a few weeks of the outcome.

Moving on, on slide eight, we have transactions pending to purchase high-efficiency, load following CCGTs in three of our four core regions. We continue to push towards a prompt closing of these transactions. We are highly confident that Cottonwood will close in the very near future. And that while Cottonwood in and of itself will be fairly unspectacular in its near-term contribution to EBITDA, given the subdued commodity price environment, Cottonwood will play an essential role in enabling us to renew the portfolio long-term offtake of arrangements that South Central has with its key co-op customers, recognizing that a significant number of these contracts are up for renewal in 2014.

As to the Dynegy assets, we remain very comfortable with the bargain we stuck back in August, and we want the transaction to proceed on its present terms. With the commodity price curve for natural gas bumping along at cyclical bottom, it is a good time to acquire generation assets. We are highly confident if we get the opportunity to close the Dynegy transaction that over the entire commodity price cycle our investment will be money well spent, and that this portfolio, headlined by the strategically and geographically advantaged Moss Landing 1 and 2, will be a successful investment on behalf of NRG shareholders.

If the Blackstone acquisition does not proceed and the opportunity to buy this set of CCGTs disappears, we are equally confident that we have very attractive alternative uses for the liquidity that will be freed up. Not only is it a good time to invest in well-located CCGTs at prices well below replacement cost, it is a good time to invest in low risk, high return solar projects, and that is something I am about to talk about.

And it is always a good time, particularly at the current depressed price levels to buy NRG stock. Of course, our stock price performance seems to be constrained by the drop in gas prices and the flattening of the gas curve more generally; however, that fundamental connection between natural gas prices and the financial prospects of IPPs tends to overlook the fact that our Reliant retail business is countercyclical to natural gas, and the $600 million of year-to-date EBITDA that we are reporting today demonstrates the resilience of that countercyclicality.

We have previously guided the market to think of Reliant in our hands as a $300 million a year "midcycle business". But of course that concept is very broad brush, and indeed somewhat meaningless outside of financial modeling, since in my 20 years experience in this industry the midcycle never seems to last for more than a millisecond, either in the natural gas or the heat rate market.

What we have tried to depict on slide nine is a slightly more nuanced and hopefully a significantly more accurate view of the earnings power of Reliant as a function of the natural gas price cycle. The upshot of this analysis is that rather than thinking about Reliant as a $300 million a year EBITDA midcycle business, we believe the market should think about Reliant as a $400 million to $500 million a year EBITDA business in all flat to moderately sloping gas price environments.

When natural gas prices are sharply decreasing, Reliant's earnings power can spike about $600 million a year. When natural gas prices are sharply increasing, Reliant's earnings power will dip below $400 million a year, with $300 million being more of a baseline, absent some extraordinary event.

Moving onto our green initiatives on slide 10. Our purchase of Green Mountain Energy has received all necessary approvals and is ready to be closed in the very near future. As a general comment, I want to emphasize how important I think Green Mountain and the Green Mountain brand is going to be in transforming NRG's alternative energy future by tying together our various renewable generation businesses and initiatives and tying them to Green Mountain's own substantial and growing green energy customers.

In the fast-growing world of green energy, as depicted on slide 11, there is no brand that comes within a country mile of Green Mountain. As a stand-alone business divorced from any association with NRG's renewables projects or any support from NRG's commercial operations team, Green Mountain is a solid business with a healthy EBITDA contribution relative to the purchase price. As such, even on its own it is a welcome addition to the portfolio.

But beyond that, Green Mountain will allow NRG to offer matched green wholesale green retail products to green energy consumers that is truly unique. And this is important, because while the idea of top-down imposition of a carbon regime on the American public is dead on arrival in the new Washington, the American consumer trend toward sustainability is going to continue, and indeed in my opinion accelerate, led by thought leaders of the next generation.

Success with Green Mountain for us starts with the successful integration. At NRG our track record of quick, efficient and effective integration of new acquisitions is one of the things I'm proudest of at this Company. Both in the case of Texas Genco and Reliant retail, we demonstrated that complex businesses could be brought into the NRG camp in a manner that not only was nondisruptive, but which enabled the newly acquired businesses to equal or exceed their business objectives virtually from the very beginning.

The single key to our success in this regard is our emphasis on enabling the new businesses to continue to focus on what they do best, while letting us take care of the rest.

In the weeks ahead we will be working closely with Green Mountain on the integration of their business enterprise into NRG, focusing on the priorities listed on slide 12. We intend to protect, preserve and extend their green identity to secure their core financial performance and to prioritize their opportunities for profitable expansion into new regions and products, but particularly in respect to new market segments.

We believe NRG can ably assist Green Mountain move further up the C&I ladder to sell to bigger and more extensive retail organizations, which themselves want to shore up their own sustainability credentials with their own customer base.

In short, I am extremely excited on what Green Mountain and NRG can accomplish working together, so you should, as they say, stay tuned.

Turning to the wholesale side of our green equation on slide 13. We have talked about the immense opportunity we see in the solar space, but so far has been mainly anticipatory. What you already have begun to see over the past couple of weeks with the announcement of construction at Avenal and Ivanpah is that our development effort is beginning to bear fruit. If all of goes according to plan, you should expect to hear significantly more in the weeks to come, as conservatively more solar projects in our development pipelines complete the usual development process and proceed into the construction phase.

As we have stated previously and repeat on slide 14, we feel that our solar investment strategy, being a validly multi-technology, multi-vendor and initially focused on the utility-sized projects with very long-term PPAs, is the precisely right strategy to capitalize on the opportunities and incentives currently available to the solar industry.

The equity return on these projects, particularly when you consider the lack of merchant risk, the complete absence of environmental risk, and the minimal completion risk in construction time, are as attractive on a risk-adjusted basis as any that I have seen over the course of my 20 years in this industry.

Finally, before handing over to Mauricio, let me emphasize that we are mindful that our solid financial performance year-to-date in 2010, and our successful positioning of the Company to take advantage of a very attractive growth opportunities that will arise as our industry transforms itself in response to society's demand for a sustainability, have not yet translated into improvement in our share price, and as a consequence, our shareholders have suffered. We will do everything within our power to bring about that improvement. And we believe that the main thing we can do is execute on our plan as effectively and as quickly as possible.

As listed on slide 15, we have a great deal on our plate over the next six to nine months, and we hope that successful execution against these priorities will serve as a springboard for share price appreciation. Mauricio.

Mauricio Gutierrez *NRG Energy - COO*

Thank you, David, and good morning everyone. As you all know, the third-quarter is critical to both our generation and retail segments. This summer we experienced some of the warmest weather on record across our Northeast, South Central and Texas regions. I am very pleased to report that we had another strong quarter from both an operational and financial perspective.

Slide 17 highlights a few of the accomplishments achieved during the third quarter. As always, we remain focused on safety across the organization, and for the third quarter we posted an OSHA recordable rate of 0.88, a significant improvement from last summer and just shy of top decile level.

Our plant performance improved across our entire fleet for the third quarter. Starting with our coal plant performance, the equivalent availability factor, or EAF, increased to 94.9% in the third quarter from 92.3% for the same period in 2009. This improvement was led by our Limestone and Big Cajun II facilities.

Looking at generation, STP had another outstanding quarter with 99% availability. And our oil and gas portfolio responded to the significancy of experience in Texas, South Central and the Northeast by starting over 2,500 times with a 99% reliability during this critical summer months.

With respect to our construction projects, the Indian River environmental control project continues to be on track and within budget to begin operations in January 2012.

Our Middletown repowering project to build 200 megawatts of peaking capacity is on scheduled to be operational by the summer of 2011. This is the second repowering project in our New England fleet. Our first project at Devon has been running successfully since it began operations this past summer.

The PPA for El Segundo Energy Complex in California received CPUC approval in October. Demolition work has started to make room for the construction of the new units, which are expected to be in service by the summer of 2013.

Our FORNRG energy program stands at $83 million year-to-date, and is on track to achieve the $98 million free cash flow goal for the year. Also, we have already identified projects and cost savings that will bring this program to completion by achieving the full goal of $150 million ahead of our 2012 original date.

Finally, our Commercial Operations Group took advantage of some market opportunities during this summer to increase our hedge profile in 2011, which I will discuss in more detail later in the presentation. In addition, they have successfully managed our retail supply under volatile market conditions, delivering strong financial results for two consecutive summers.

Moving on to our plant operations on slide 18, net generation increased by 8% this quarter over last year. This increase came primarily from our Northeast plants, which benefited from warmer than normal weather, and the decrease in coal to gas switching, which was most prevalent in 2009.

Also, nuclear generation was higher due to much improved availability compared to the third quarter of last year. Our baseload portfolio, which includes both our coal and nuclear assets, experienced significant reliability improvements during the third quarter compared to last year. Limestone and Indian River led the coal fleet with equivalent forced outage rate of 2.6% and 4%, respectively.

Turning to our retail operations on slide 19, we experienced another solid performance during the third quarter. Record weather in August and September across Texas created an opportunity to deliver higher volumes and stronger margins from our Mass segment. The Mass segment drove significant improvements in net customer attrition with the launch of new advertising campaigns and innovative products.

In addition, we maintained our low customer complaint rate through strong performance in retail operations. We continue to balance customer accounts and pricing to deliver higher than run rate margins that are more sustainable in the long term.

In the C&I segment we continued to improve win rates during the third quarter, and extended the term and diversity of our portfolio. Reliant remains the largest C&I provider in Texas, and we continue to leverage the strength of NRG to provide innovative products and services for our business customers. In summary, we are optimizing margin and customer accounts by delivering innovative products and excellent customer service.

Turning to our hedge profile and commodity sensitivities on slide 20. As illustrated in the charts on the upper left, we have increased our hedge profile for 2011 to 96% from 86% last quarter. This is consistent with our view that that the gas market continues to be under pressure, given the high and resilient domestic production levels despite the low gas prices.

With gas producers beginning to show some drilling restraints, hedge positions rolling off, and indications that drilling to [fault] acreage may be ending, we have chosen to remain relatively open beyond 2011 to benefit from an expected recovery in gas markets.

If we decide to add additional hedges in the outer years, we will likely lean towards using auction structures that allow us to participate in some upside, while protecting the portfolio from further decreases in gas prices.

With respect to retail, we have increased our price load to 57% in 2011 from 50% in the second quarter. We continue to match as much generation and load as possible to strike maximum synergies between our retail and wholesale portfolio.

In order to match our incremental power hedges, our coal hedges increased over 2011 from 78% last quarter to 88%, as illustrated on the upper right chart. We also remain well-hedged in terms of coal transportation for some time.

We continued to limit our commodity price sensitivity in 2011, as illustrated in the lower left chart, with 2012 through 2013 through 2015 largely unchanged.

Moving on to slide 21, the quarter-on-quarter demand growth for ERCOT continues the positive trend in a weather-normalized load growth for the year at around 2%. In August ERCOT set multiple consecutive new peak loads and achieved a new all-time record peak load of 65.7 kilowatts, an increase of almost 4% from the previous record set in July of last year.

In PJM the weather-normalized load growth continues to be fairly stagnant. However, the warmer than normal weather drove significant load increases across the Northeast, and total loads was up 7% to 9% higher as compared to third quarter of 2009.

In Texas forward heat rates have remained to be well-supported during the first half of the year due to continued robust demand, higher supply, plant retirement and the continued lack of capital for merchant projects. We expect the Texas market to continue showing robust fundamentals.

Moving on to the environmental front. 2011 will provide a lot more clarity around environmental rules and requirements for our facilities. As we have mentioned in previous presentations, we currently have a plan to invest approximately $700 million over the next four years in environmental projects tailored to comply with these future regulations.

[By indicator], the proposed rule does not require additional capital for compliance. With respect to MACT, our plan considers mercury controls on all coal units. While a worst-case scenario to control acid gases could result in additional environmental capital for 1,900 megawatts at Parish and 1,500 megawatts at Big Cajun, we don't expect this to be the likely scenario.

In terms of once-through cooling, heat rate qualifications on repowering are expected to achieve these higher results. For example, we are meeting targets today with pre-modifications at our Arthur Kill plant in New York.

Finally, NRG does not face the challenges of converting from wet surface impoundments to landfills, as we have dry fly ash disposal on all our coal facilities.

Our near-term operational priorities are listed on slide 22. As we move into 2011 we remain focused on excellence in safety and operational performance. We will continue to constantly evaluate the impact of various environmental regulations in our current maintenance and capital spend, particularly in the face of the challenging commodity price environment, and determine the best cost benefit position for each of our assets.

With that, I will turn it over to Chris, who will discuss our financial results.

Chris Schade ***NRG Energy - CFO***

Good morning and thank you all for joining our discussion of NRG's third-quarter and year-to-date financial results. Beginning with slide 24, our financial results remain strong with $777 million of adjusted EBITDA for the third quarter and $2.071 billion of adjusted EBITDA year-to-date.

During the quarter Reliant Energy contributed $209 million of adjusted EBITDA to our results compared to $306 million in EBITDA for the third quarter of '09. This difference is largely explained by lower margins on newly acquired customers and existing customer renewals, as well as lower customer counts.

Meanwhile, the wholesale business contributed $568 million of adjusted EBITDA during Q3. The $32 million decline compared to Q3 2009 wholesale performance can be largely attributed to the following.

In the Northeast region lower baseload hedges were partially offset by a 37% increase in generation due to warmer than expected weather during the quarter. In Texas a 5% increase in generation and the benefits of lower operation and maintenance costs were offset by a 20% increase in fuel cost, driven by a new coal transportation contract at our Parish facility.

Meanwhile the South Central region benefited from the addition of a new contract with a regional municipality, leading to a 17% increase in megawatt hours sold and a 23% increase in the average realized energy price per megawatt hour. Also, contributing to the results in the South Central region was a 8% increase in load due in part to warmer weather.

Turning to year-to-date results, Reliant Energy contributed $594 million of EBITDA, $58 million greater than 2009 EBITDA of $536 million. Excluding the $227 million of EBITDA generated in the first four months of 2010 for comparative year-to-date analysis since the acquisition was completed in May of 09, EBITDA results were lower by $169 million.

This decline is driven by a 19% decline in Mass margins, which are the result of price reductions enacted following the acquisition and lower margins on customer renewal and acquisitions, reflective of the current competitive marketplace.

The wholesale business year-to-date generated $1.477 billion in adjusted EBITDA, $116 million lower as compared to the first three quarters of 2009. The comparative year-to-date decline is largely explained by lower baseload hedges in the Northeast, lower margins in Texas caused by higher transportation costs, offset somewhat by better contributions from the South Central region.

At September 30, the Company's liquidity position stood at approximately $4.8 billion. Impacting this liquidity position during the third quarter were the following items. We repurchased $130 million of NRG shares at a volume weighted average cost of $20.80 per share. These shares, combined with the $50 million repurchased in the second quarter, brings the 2010 share repurchase program to a close at $180 million, or 8.4 million shares, purchased at a volume weighted average cost of $21.26 per share.

On August 20, the Company issued $1.1 billion of 8.25% senior notes due 2020, with the proceeds to be used for general corporate purposes, including the funding of the recently announced acquisitions.

And on October 12, NRG completed a $190 million tax-exempt financing in relation to the environmental work to be completed at our Indian River facility, which is not yet reflected in current liquidity.

The Company closed the third quarter in a strong financial position to complete the three recently announced acquisitions of Dynegy assets, Cottonwood and Green Mountain Energy, totaling $2.238 billion.

Now turning to slide 25, as I mentioned a moment ago, total liquidity, excluding funds deposited by hedge counterparties remained strong at nearly $4.8 billion, an increase of nearly $1 billion from the year-end 2009. The increase is principally driven by $1.1 billion increase in total cash, and largely explained by continued strong cash flow from operations, and proceeds from capital market transactions of about $1.3 billion.

During the first three quarters of 2010 we also made debt repayment of $529 million, which include a reduction of the Term Loan B debt of $247 million and the early settlement of the common stock finance fund of $190 million, and completed capital expenditures, excluding those in NINA, of $274 million consisting largely of $119 million of normal maintenance and $132 million of environmental CapEx.

Finally, before turning to the next slide, as you can see in the lower right, we continue to have ample capacity under our first lien to execute hedges on our baseload business when appropriate. The first lien remains a very useful tool to both execute such hedges and preserve other sources of liquidity necessary to assist future growth.

Now turning to our 2010 full-year guidance update on slide 26. As a result of the strong performance of the business in the third quarter, we have narrowed our guidance to the upper end of the original range to $2.5 billion to $2.55 billion.

At the same time because of the increase in EBITDA expectations, lower than anticipated income tax of $50 million, $92 million of debt funding for the Indian River environmental work, all offset by an increase in collateral postings during the third quarter of $86 million, we have increased guidance for free cash flow before growth investments to about $1.2 billion to 1.25 billion.

Meanwhile we are lowering our free cash flow guidance for the full year to about $700 million to $750 million. The decrease is a result of increased growth investments of $225 million in the fourth quarter, which includes our El Segundo repowering project, and the majority of the balance for solar projects both previously announced and currently planned.

Based on Wednesday's closing stock price of $20.04 our updated outlook -- and our updated outlook, the free cash flow before growth yield currently stands at between 24% to 25%, or $4.77 to $4.97 per share.

Now turning to preliminary guidance on slide 27. As you can see, we currently expect our full-year 2011 consolidated EBITDA guidance to be in a range of $1.9 billion to $2.1 billion. Included in this guide range are wholesale expectations of $1.35 billion to $1.45 billion, which includes our announced acquisitions.

In comparison to the current 2010 wholesale EBITDA forecast, our wholesale guidance for 2011 is largely impacted by low overall hedge prices, lower expected capacity prices in the Northeast, and normalized weather. Somewhat offsetting these decreases are reductions in our anticipated O&M and G&A spend across the Company, which is expected to come in 6% lower in 2011 than in 2010.

As Mauricio discussed earlier, we are nearly 100% hedged for 2011, and are thus confident of our forecasted results. As we look forward to our wholesale business in 2012, we are currently in excess of 50% hedged, but at significantly higher prices than 2011, as indicated in our current SEC filings. Due to this position, coupled with the current commodity market conditions, we expect flat to marginally lower year-on-year wholesale results in 2012 from 2011.

For our retail business in 2011 our current expectations, assuming normal weather, are an EBITDA range of between $480 million to $570 million. The decrease in 2011 guidance compared to current 2010 forecast is largely explained by lower unit margin Reliant's Mass business. Reliant's C&I business margins are also expected to decline, but be partially offset by higher terawatt hours served, reflecting our continued dedication to this growing client base.

Finally, we expect Green Mountain Energy to contribute between $70 million and $80 million of EBITDA. As David discussed earlier, we are very excited about enhancing the growth prospects for our new green energy retail business.

We are similarly excited by our solar development prospects, and on slide 28 this illustrates this potential. This slide represents our four-year net equity commitment to 500 megawatts of solar projects, both announced and planned over the coming months, as well as their respective EBITDA contribution of $175 million by 2014.

We are committed to investing in this financially value-enhancing promising pipeline of projects, and look forward to sharing with you both our current progress and future opportunities as we have identified to expand our solar footprint.

On slide 29 we have provided our projected year-end cash position for 2011 of approximately $1.5 billion. Assumed in this calculation are cash flow investments from guidance, the completion of outstanding acquisitions of $2.238 billion dollars, and expected debt repayment under our Term Loan B agreements.

As such, when reviewing our capital allocation plans, we usually maintained a minimum cash balance of $700 million, largely for working capital margin -- largely for working capital, margin requirements, the timing of cash payments of interest, property taxes and the like, as well as equity for the projects we have under construction throughout the year. Thus in 2011 we estimate a balance of about $785 million to allocate between share buybacks and further investments in high-growth opportunities.

The decision to deploy these funds in 2011 will be dependent on another -- a number of factors, such as the size of our restricted payment basket and continued availability of attractive projects to invest in. We would hope to update this allocation with improved precision at our 2010 year-end results call.

In closing, we are very proud of our ability to continue to deliver solid results despite the current commodity market climate. As we move forward we remain committed to a prudent allocation of capital to create further opportunity for business growth and to return value to our shareholders.

Now I will pass it back to David for final comments.

David Crane ***NRG Energy - President and CEO***

Thank you, Chris. Before we open the line for questions, let me just make three quick points for you to keep in mind. The first is, I think that we are demonstrating, as I said, even three years into the commodity price downcycle we are showing that even in these circumstances the Company is demonstrating substantial free cash flow generation.

Secondly, we do have investment opportunities led by solar, which are very attractive in absolute terms and from a risk perspective, and also are much shorter in terms of how soon they contribute to EBITDA because of the shorter construction cycle.

Finally, to follow on Chris' last point, we do have substantial liquidity to deploy. And I think our track record over the last six years has indicated our ability to allocate and deploy capital in a manner that enhances the value of the Company over the medium to long term. So we hope and expect to continue to do that for the benefit of NRG shareholders.

So with that, so Lamera we would be happy to take any questions that you have on the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jon Cohen, Morgan Stanley.

Jon Cohen ***Morgan Stanley - Analyst***

Can you comment on how Constellation's exit from UniStar might have impacted the timing of your DOE loan guarantee process? And also whether there has been any progress on how the additional capital from Toshiba is going to be structured in the interim?

David Crane ***NRG Energy - President and CEO***

I can't actually answer the first question. I mean, our process with the DOE has gone on in accordance with the schedule we have had with them. If it has affected the way the government looks at these loan guarantees internally, we are just not in a position to -- I don't know. I don't know. It is like the old iceberg, we don't see what happens beneath the surface.

So we have not picked up any sort of like meaningful visible, tangible change in the way the government's approach to us as a result of the Constellation Calvert Cliffs situation. If you have another question on that, I don't like to not be able to answer a question.

Jon Cohen ***Morgan Stanley - Analyst***

No, that's okay. The second question was whether Toshiba had come to any agreement on how the capital contributions were going to be structured? If the answer to that is no as well, I have a third question.

David Crane ***NRG Energy - President and CEO***

Well, right now the arrangement with Toshiba is that they have been -- their capital contributions have been put into the project through credit facilities to NINA. But we will probably be able to give you more final details on that on the next quarterly call.

Jon Cohen ***Morgan Stanley - Analyst***

Okay, and then finally, the $600 million of equity that is going to lead to $180 million of EBITDA for the solar projects, how much of that is from projects that are either -- have been completed or have been announced?

David Crane ***NRG Energy - President and CEO***

It is -- I would say that half of that is from projects that have been either in the ground or announced, and the rest are ones that we would expect to announce very soon to qualify for the cash grant.

Jon Cohen ***Morgan Stanley - Analyst***

Okay, thanks very much.

Operator

Lasan Johong, RBC Capital.

Lasan Johong ***RBC Capital - Analyst***

Nice quarter. David, if you believe in what you said, i.e., power pricing bouncing along the bottom of the short cycle, and you think there is significant potential upside in '12, and you already have massive coal exposure anyway, can you give us an idea as to why you didn't go after the entire company and just picked off the California CCGT?

David Crane ***NRG Energy - President and CEO***

Okay, well, first of all, the significant upside in '12, we could not -- first of all, I think that what I said was that we are bouncing along the bottom of the trough. I am not sure that I predicted a full recovery in the year 2012, but maybe I got a little hung up on that.

Why did we not go after the full company of Dynegy, I would say that we didn't feel that with the exposure that the company had in terms of their coal assets -- and I think you would know from the SEC filings that Dynegy is listed in terms of the description of the discussions that occurred was that we made it very clear from the beginning that we were not interested in owning the Midwest coal assets.

That was really a factor -- two factors that caused us to feel that way. One, as you yourself mentioned, we have a significant amount of that in own portfolio already. The second thing, and we have been consistent about this ever since the response to the Exelon situation, as we consider the Midwest -- in my seven years in this Company we have never been attracted to the Midwest as a place where we really wanted to be very active.

I would say that lack of interest in the Midwest has gotten greater over those years, because we find the prospects for demand growth in the Midwest -- in the Midwest of the country are more challenging than on the coast. And we also think that the Midwest market, being coal on coal competition for the most part, that is not very attractive to begin with, but also we think it is subject to risks from a buildout of wind capacity coming out of the Dakotas. So that just wasn't our cup of tea. And obviously that is a big part of the overall value of Dynegy.

Lasan Johong ***RBC Capital - Analyst***

I see. I think I might have to follow off-line on that one. The other question is the line [ROI energy], I should say, they have saw very big increases in heat rates relative to the demand change. Did you see something similar in your key regions, Northeast, Texas? And you can you tell us what impact you saw from demand increases on heat rates?

David Crane ***NRG Energy - President and CEO***

Yes, let me ask Chris Moser to answer that question. And on your previous comments feel free to call me if you want to discuss.

Chris Moser ***NRG Energy - VP Trading***

Well, certainly in the Northeast, and in PGM we saw heat rates clearing at fairly high levels. And certainly in Texas as well we saw good heat rate expansion both in the prompt and in the future quarters.

Lasan Johong ***RBC Capital - Analyst***

Can you give us some magnitude of scale versus like what you saw in let's say third quarter of '09 versus the demand change? In other words, if demand went up 5%, how much did the rates go up?

Chris Moser ***NRG Energy - VP Trading***

I don't have that in front of me right now, but we can follow off-line.

David Crane ***NRG Energy - President and CEO***

We will get you something on that too.

Lasan Johong ***RBC Capital - Analyst***

That is it for me. Thank you so much.

Operator

Anthony Crowdell, Jefferies.

Anthony Crowdell ***Jefferies - Analyst***

Hopefully, just two quick ones. One is the wholesale guidance of $1.35 billion to $1.45 billion, what are you assuming is the contribution from the Dynegy assets in the number?

And my second question is related to the Reliant retail guidance. It seems that you're still going to a long-term run rate of $300 million. But when I look at the options here from $300 million on a rapid increase in gas to $700 million at the top, it would make more so the midpoint there would be closer to the $500 million. And even the graph below seemed like more of the time it is in that $400 million to $500 million timeframe.

David Crane ***NRG Energy - President and CEO***

Thanks for your two questions. I am going to ask Chris to answer the second question, but I'm going to throw my body in front of him on the first question.

With where the Dynegy transaction is right now, in terms of the shareholder vote coming up, we would rather not talk at all about what we see as the earnings power of Dynegy next year or the year after or anything like that. We would give you more information about that probably the next time we talk, assuming the next time we talk is after November 17 or whatever the day is. But we would really not get into that right now.

But, Chris, on the Reliant question.

Chris Schade ***NRG Energy - CFO***

We view the steady-state Reliant business to be a $400 million to $500 million business. So I think given our experience on the business we view that that that would be the base case. With the upsides to improvement in that would be -- and that would assume normalized weather. The upside here would be that the weather as it has been for the last couple years, which favors the results, also is that there is a lower than forecast decline in volumes and our ability to hold customers at higher margins.

So given our experience over the last two years with Reliant, I think I would take exception to your $300 million baseline and say that we are certainly targeting $400 million to $500 million at a steady state.

Anthony Crowdell ***Jefferies - Analyst***

Okay, great. Thank you.

Operator

Ameet Thakkar, Banc of America.

Ameet Thakkar ***Banc of America - Analyst***

Maurizio, when you -- I guess, when Mauricio outlined some of the worst case scenarios for initial environmental capital spending, I guess one of the things that I didn't hear, and I was just -- would be curious to get your thoughts on, how do you guys see the EPA's approach to burning of lignite fuels such as you utilize at limestone?

David Crane ***NRG Energy - President and CEO***

Could you be more -- I mean more specific.

Ameet Thakkar ***Banc of America - Analyst***

Are you guys going to be able to burn lignite there? With some of the proposals on mercury -- some of the more stringent proposals on mercury, is there any risk that you will have to shift to burning PRB there?

Mauricio Gutierrez ***NRG Energy - COO***

As you know, we are ready blend PRB at Limestone. It is too early to tell how stringent EPA is going to be on [MACT II]. I would rather wait for the first quarter of 2011 to adjust our planning if we need to adjust it.

What I will say is I was pleased it is primarily PRB-based. PRB-based, as you know, has low hydrochlorine acid. And we believe that our current plan already takes into consideration mercury controls. And that the fact that our baseload fleet is primarily PRB is that we are not going to need any incremental capital, but at least that will be -- that is to be seen as the rules come out next quarter.

Ameet Thakkar ***Banc of America - Analyst***

Okay, great. Fair enough. Then just real quick, as far as thinking about the 2011 capital allocation plan, is that something we should look forward to in the next call?

Unidentified Company Representative

That would be the plan, yes, at our year-end call in, I would assume, February.

Ameet Thakkar ***Banc of America - Analyst***

Great, thanks guys.

Operator

Julien Dumoulin-Smith, UBS.

Julien Dumoulin-Smith ***UBS - Analyst***

I am going to try to keep this to one quick question here. I have noticed in the past that you guys have typically hedged yourself with gas, but given the expansion in heat rates year-to-date, especially for 2011 in Texas, can you perhaps comment to what extent that has helped bolster the '11 outlook?

Mauricio Gutierrez ***NRG Energy - COO***

Certainly, heat rates have been pretty well-supported, and the warmer than normal weather that we have experienced in Texas over the past two summers have helped boost them up. What we have been trying to do is match as much generation as we can from load. And this matching comes in the form of not only ancillaries and options between generation and load, but also heat rates.

So as our retail business is pricing -- are fixed pricing their loading for 2011, we have been selling more from the generation to the retail business, and at prices that reflect current markets.

Julien Dumoulin-Smith ***UBS - Analyst***

All right, great. Thank you.

Operator

Gregg Orrill, Barclays Capital.

Gregg Orrill ***Barclays Capital - Analyst***

I was wondering if you would consider a question about the implications of the Dynegy transaction getting voted down, if that were to happen, and how you would think about the change in value of the assets? You had agreed to purchase them, and maybe if that didn't happen, what you might do with the cash?

David Crane ***NRG Energy - President and CEO***

Well, I can only comment -- I think what I'm going to tell you is something that if you avidly followed the trade press you know would have already seen in the press, so I am not sure it is going to be that illuminating.

But if the Dynegy transaction was defeated, A., obviously we would have no idea why it was defeated or what the plan of Dynegy would be going forward, and whether the assets that we had contracted to sell would be available for sale from someone else.

If someone offered those assets to us, and we were free of our obligation -- when we were free from our obligation to Blackstone to consider, we obviously would consider it. And to me it is a blinding glimpse of the obvious, but given the change in the gas curve since August, we would be offering a lower price. I'm not going to talk about how much of a lower price.

But there is another factor is that we would have to be certain that whoever we were buying the assets from, the transaction was structured in a way that it was bankruptcy remote. That we were not subject to a potential unwinding of the transaction due to fraudulent conveyance.

So that would be an obstacle -- a potential obstacle as well. So that -- the potential permutations of what might happen are so great that is about all I can tell you right now.

On the alternative uses of the liquidity, I would just repeat what we said. We have a lot of investment opportunities. The Dynegy assets were particularly attractive to us, but they are not the only combined cycle power plants in the United States that are on the market today. And I previously stated in many meetings that I actually thought that the absolute best time to be buying combined cycle power plants was probably to be in the first part of 2012.

Then, of course, there is the possibility of redeploying the capital in terms of return of capital to the stakeholders. Obviously, there is a possible per share buyback. But as we did borrow money in August in order to finance the Dynegy transaction, there is also the possibility of paying down some debt. So, Chris, did you want to --?

Chris Schade ***NRG Energy - CFO***

Certainly, we have some calls coming up, particularly in the near maturities, like the 2004 maturities, which look attractive, or are beginning to look attractive come the February call dates, which I think are about [101 7/8]. So if there was no other use for the cash, as David said, then certainly we would look to pay down and/or redeem those bonds.

Gregg Orrill ***Barclays Capital - Analyst***

Okay, thanks.

Operator

Brandon Blossman, Tudor Pickering.

Brandon Blossman ***Tudor Pickering - Analyst***

Nice quarter, guys. I guess following on '11 capital allocation, assuming all these transactions do close, $1.5 billion of cash left over on the balance sheet at the end of '11, is that a balance that you're comfortable with, or does that leave any room for incremental asset purchases or stock buybacks, etc.?

Chris Schade ***NRG Energy - CFO***

Yes, it certainly is a comfortable cash balance for us. As I said during the prepared remarks, of the $1.5 billion we typically like to keep at about $700 million for working capital and margin calls and the like. And the rest of that, so the other $785 million odd, are available for both share repurchases and investments in other opportunities -- repowering assets, other solar opportunities or other green opportunities.

So we think we've got ample firepower both to look at the opportunities that David thinks will be available, as well as return to shareholders as well.

Brandon Blossman ***Tudor Pickering - Analyst***

Thanks. And then, real quick, moving to retail. It looks like customer count quarter-over-quarter was just slightly down. Does that represent maybe a change in strategy towards keeping customers and saving margin a little bit?

David Crane ***NRG Energy - President and CEO***

Jason Few is going to answer your question.

Jason Few ***NRG Energy - President, Reliant Energy***

If you look at the third-quarter results we were about 20,000 down on Mass, that certainly over the last couple of years reflects quite an improvement. We have been very aggressively on a strategy to stabilize our customer base. We still maintain a pretty aggressive balance between margin and count, and we will continue to do that.

But I think with our new product introductions and particularly our cap and shade plan, we had very solid customer reaction to that plan, which is unique in the market; no one else operating that type of product. And that certainly helped us stabilize the customer base, as well as what we are doing in terms of our smart energy, what we call our smart energy initiatives and set of products that we have rolled out against our customer groups there that are helping us reduce attrition -- beyond just things that we have done from a pricing standpoint.

Brandon Blossman ***Tudor Pickering - Analyst***

Nice color. Thank you, Jason.

Operator

We only have time for two more questions. Brian Russo, Ladenburg Thalmann.

Brian Russo ***Ladenburg Thalmann - Analyst***

Thanks for taking my question. I am just curious, David, you mentioned earlier the 2011 guidance that you look to improve upon it. And I think historically you had -- the Company has a tendency to exceed the preliminary 2011 guidance. Just that you are already 96% hedged on the baseload generation side, I am just wondering what are the potential drivers for upside? Is it greater utilization of gas plants just tied to weather, or maybe you can give us a little bit more color on that?

David Crane ***NRG Energy - President and CEO***

Well, you hit two. To me there is those two. There is the fact that we tend to be a little bit cautious in everything we do, so there could be a little bit of cushion built-in.

There is the fact that one thing we have never understood about the way the outside world looks at this industry, it is not like we as a management team are sitting on our hands just sort of clipping coupons. We are a pretty active Company in terms of reshaping the portfolio and improving upon it.

So there is the fact that we as a management team may actually do things to improve it, which, of course, we like to improve our own value-add. Chris, what else from your perspective?

Chris Schade ***NRG Energy - CFO***

Sure, just to look at the wholesale business first, as you said, we are nearly 100% hedged, but however, if there is an upturn in gas then we would expect to see an increase in results of around $60 million during the year.

There is also some variability in our gas fleet results. So with an increase in both gas prices and heat rates, there could be an upwards revision of $15 million for them.

Also, as we said during the presentation, we have built in a 6% decrease in cost across our O&M and G&A. With about $1 billion of cost if there are additional 1% to 2% decrease in cost then that can obviously add to our result as well. And as David said, as a management team we are very much focused on any improvements we can squeeze out of the business.

In retail, the range that we have in there contemplates certain load variability due to weather. And then also if we see lower than expected attrition rates than we had previously forecast that would increase results. Also if there is a decline in gas, and this speaks to the hedge against our wholesale business, then that would most likely improve results for Reliant.

Finally, it is very clear that we guided $500 million of EBITDA for 2010 and we have exceeded that by nearly $200 million -- or we expect to for the year. So changes in weather and other changes to the exogenous market obviously you have a very large influence on those results.

Brian Russo ***Ladenburg Thalmann - Analyst***

Okay, and then just on Green Mountain. Can you give us a sense of what is the market penetration there? And I guess on your $70 million of EBITDA what kind of growth potential is available for Green Mountain going forward?

David Crane ***NRG Energy - President and CEO***

Well, I think that their growth -- in the last four or five years they have averaged a compound annual growth in the 20% to 25% range. So, again, being cautious people, as we project forward we don't reject that type of increase, because, again, we are cautious people. But they have demonstrated that over each of the last four or five years. And certainly we think that, as I mentioned in my comments, that Green Mountain under us can penetrate into markets that they haven't been.

They have been moving outside of Texas. Their principal area of expansion to date has been in New York City. And we want to do things in a methodical way, but certainly we think there are other markets in the Northeast that they can move into.

But I think the most obvious thing is that as a small company in the C&I business, Green Mountain has focused on very, very small commercial customers. Our sense, and I think there are a lot of anecdotes and data points on this -- I will spare you my Philadelphia cream cheese example -- but it seems that a growing number of businesses in the United States that are facing the American consumer are seeing the benefit of sending a green energy message.

We thank that is a trend that is going to accelerate, and we expect Green Mountain to be a big part of that trend. So we think there are multiple avenues for growth with Green Mountain. And really the most challenging one is which ones are we going to prioritize and focus on so we don't spread too thin.

Brian Russo *Ladenburg Thalmann - Analyst*

Great, thank you very much.

Operator

Jay Dobson, Wunderlich.

Jay Dobson *Wunderlich - Analyst*

David, most of my questions have been answered, and I did drop off the Q&A, so apologies if this was asked. And thanks for the detailed on page 6. But you mentioned the fish or cut bait on nuclear, and I was trying to get an idea what exactly what you're talking about. Is that loan guarantee-driven? Because, obviously, you wouldn't have a PPA by then or some of the other off ramps you mentioned.

David Crane *NRG Energy - President and CEO*

Well, to me there is -- we have that one slide in the presentation, slide six, that talks about five exits. But really to me it comes down to basically two interconnected exits. One is the loan guarantee, the other is the PPA obligation. And they are tied together, because the PPA obligation is a condition of the loan guarantee.

What I can say is it is always hard to predict the development business. And we could get subject to a complete impasse if Washington were -- there is just no money is appropriated for nuclear loan guarantees, even though I think President Obama yesterday said that when -- I am told; I didn't see this -- but when he was asked which areas is there room for cooperation with Republicans, I think -- I was told nuclear was the first or the second thing that he said.

So in a sense we should think this is an area where the election results is beneficial. But nuclear needs the loan guarantee appropriation, and if that doesn't happen, obviously, that is a very, very clear exit ramp.

The slightly less clear exit ramp is, okay, we get the loan guarantee, but it is conditional on offtake. And what I would tell you about that is that our sense, because we are working the offtake question very hard right now, is that within a few months of getting the loan guarantee we will know whether or not the offtake is going to happen.

And if we don't get that within a few months, the fact -- we have always said to our shareholders that we would ill not go forward with STP 3 and 4 as a fully merchant plan. And the amount of offtake that is being required by the DOE is pretty much the same as that we were going to insist upon anyway.

So the exact timing is uncertain, but I certainly expect that by the summer of 2011, assuming we got the loan guarantee well before that, we should know whether or not the offtake is going to happen or not going to happen.

Jay Dobson *Wunderlich - Analyst*

That's great. Then the last question is on share repurchases. I know there is some uncertainty given the RP basket calculation at year-end and the like, but assuming there is cash, you have historically bought back stock, David, and just want to understand in 2011 would there be reason to expect there has been any change on that front?

David Crane ***NRG Energy - President and CEO***

Well, the RP basket is the main pacing item, and so apart from that, I wouldn't expect any huge change in the Company's policy to date. But, Chris, do you have --?

Chris Schade ***NRG Energy - CFO***

Yes, the basket currently stands at about $150 million. As I said, we completed the 2010 plan, and there are obviously -- at this time when we look out into 2011 would appear there is liquidity for us to execute a share repurchase program. And we will get to that announcement with some precision when we do our year-end call in February.

Jay Dobson ***Wunderlich - Analyst***

Great, thanks very much, and congrats on the quarter.

David Crane ***NRG Energy - President and CEO***

Thank you. Well, Lamera, thank you very much, and thank you all. I know there are other earnings calls that are actually already going on, so we appreciate you taking time to listen to the NRG story. Thank you very much.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.

THOMSON REUTERS

PLACEHOLDER TRANSCRIPT

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the fourth quarter and full year 2010 NRG Energy earnings conference call. My name is Deanna and I will be your Operator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. (Operator Instructions).

As a reminder, today's conference is being recorded.

I would now like to turn the call over to your host for today, Nahla Azmy, Senior Vice President of Investor Relations. Please proceed.

Nahla Azmy ***NRG Energy - IR***

Thank you Deanna. Good morning and welcome to our fourth quarter and full year 2010 earnings call. This call is being broadcast live and over the phone and from our website at www.NRGEnergy.com. You can access the call presentation and press release through a link on the investor relations page of our website. A replay of the call will also be available on our website.

This call, including the formal presentation and the question and answer session, will be limited to one hour. In the interest of time, we ask that you please limit yourself to one question with just one follow-up. And now for the obligatory Safe Harbor statement.

During the course of this morning's presentation, management will reiterate forward-looking statements made in today's press release regarding future events and financial performance. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. We caution you to consider the important risk factors contained in our press release and other filings with the SEC that could cause actual results to differ materially from those in the forward-looking statements in the press release and on the conference call.

In addition, please note that the date of this conference call is February 22, 2011, and any forward-looking statements that we made today are based on assumptions that we believe to be reasonable as of this date. We undertake no obligation to update these statements as a result of future events except as required by law.

During this morning's call, we will refer to both GAAP and non-GAAP financial measures of the Company's operating financial results. For complete information regarding our non-GAAP financial information, the most directly comparable GAAP measures and a quantitative reconciliation of those figures, please refer to today's press release and this presentation.

And now with that, I would like to turn the call over to David Crane, NRG's President and Chief Executive Officer.

David Crane ***NRG Energy - CEO***

Thank you, Nahla. And good morning everyone and welcome to our year-end 2010 earnings call. Today with me and participating in the presentation is Mauricio Gutierrez, the Company's Chief Operating Officer, and Chris Schade, the Company's Chief Financial Officer. Also with me today and available to answer questions are Jason Few, who runs NRG's retail company Reliant, and Chris Moser, who runs the commercial operations function for this Company.

So without further ado, to begin. So ladies and gentlemen, current and prospective shareholders of NRG, as we speak today it has now been 32 months since natural gas prices began their relentless fall. And the economy at large entered into a great recession, the likes of which I'm sure none of us wish to experience again in our lifetimes.

Yet the financial performance of NRG during this period has been superb. And that financial performance has been built on the foundation of an equally exceptional operating performance across all phases of our operations and across all our regions. In 2010, the second full year of the Great Recession, our financial performance surpassed all previous years of Company results, save for fiscal year 2009, which was of course the first year of the Great Recession. A year in which we performed spectacularly, achieving both record financial performance and the acquisition of Reliant.

While I am, for the most part, extremely pleased with both the Company's financial and its operating performance during 2010, I am acutely mindful of the fact that NRG shareholders did not see any of the benefits of our exceptional performance in share price appreciation during that year. As a management team, we recognize that we have a long way to go in presenting NRG's present value and future potential to the market. In this presentation and in subsequent presentations that Mauricio, Chris and I will be making during the spring investor relations season, we intend to make a concerted effort to explain the NRG value proposition.

From the competitive strengths of our core businesses even in a low commodity price environment to the meaningful and measurable value of our growth opportunities, as well as our effective for risk mitigation in areas which we believe to be of concern to the investment community.

But starting with 2010 as summarized on slide three, the Company continued to generate a very high level of EBITDA in excess of $2.5 billion, and also throw off a substantial amount of free cash flow. Indeed, in regard with what should perhaps be the most important metric to shareholders, free cash flow yield, our free cash flow yield for 2010 was a robust 29%, making our seven-year average exceed 23%.

And in response to some people who have said that we should measure free cash flow for [these purposes] after both maintenance and environmental CapEx, we have done it in that way but before growth CapEx.

A substantial amount of that free cash flow yield was redeployed back to stakeholders in the form of debt repayment and through our 2010 share buyback program, and also into various growth initiatives which we will discuss in a minute. But over $650 million of excess free cash flow was returned as cash into the Company's coffers with the resulting that our liquidity position at the end of 2010, $4.3 billion of total liquidity with $3 billion of cash on hand is stronger than it has ever been.

It has always been my position that, next to safety, the most important thing we do as executive management at NRG is capital allocation. And given the amount that we're investing on an annual basis, and the record amount that we currently have available either to invest in growth or to return to our equity debt stakeholders, capital allocation has never been more important than it is now. As such, I'm going to focus the greater part of my remaining remarks on capital which we expect to invest in our growth initiatives in the months and years to come. Chris will focus a good deal of his comments on capital to be returned to stakeholders.

In terms of the allocation of capital to our growth initiatives, it is important to start with the obvious point that we want to invest the Company's capital in assets and initiatives that not only are likely to yield a return significantly in excess of our risk adjusted weighted average cost of capital, but also in businesses and initiatives which advance the Company's strategy.

As depicted on slide four, the Company's long-term strategy for some time has been [twin tracked]. First, to strengthen and enhance our generation to retail business in our core markets through superior operating performance, continued implementation of our first lien-enabled, long-term hedging program. And pursuit of both select acquisitions and the repowering of our older facilities with advantaged locations inside load pockets in our core markets.

This component of our strategy, which we have pursued with relentless consistency and a high degree of effectiveness for the past five years, was joined a couple of years ago with a supplemental strategy that is overtly green and designed to take advantage of the societal trend toward sustainability. This sustainability trend is, in our opinion, about to accelerate as a result of the emergence of various consumer-oriented disruptive technologies which will make clean energy at the consumer level the focal point of sustainability.

We made considerable progress on both strategic fronts during 2010, with substantial advances across every facet of our sustainability initiative. From our rollout of our eVgo network in Houston, which is centered around an innovative fueling package and approach to electric vehicle infrastructure that is already being replicated in other locations, to the smart meter e-Sense applications now being sold by Reliant in quantity, to our unique approach to CCS/EOR being funded in collaboration with the DOE at our Parish facility in Texas, all of these initiatives are exciting and off to a good start. All will, I am confident, return considerable value to NRG shareholders in the medium term.

You will hear more about these initiatives in the future. But not today, because today, consistent with my theme, I want to concentrate my comments on the growth initiatives which are more immediate and which are key priorities for deployment of your investment capital during 2011. This is shown on slide six.

By way of background, in 2010 we committed substantial growth capital in four general areas -- zero carbon renewables with an emphasis on solar, new advanced nuclear development, conventional gas fired acquisitions and repowerings and green retail acquisitions in the form of Green Mountain Energy. All four are likely to be areas of additional capital expenditure in 2011, but with very different investment profiles from 2010.

First, we expect an acceleration in significant expansion in our equity capital invested in high growth, high return solar projects [as the] greater part of our utility scale solar portfolio should achieve financial close and enter the construction phase during 2011.

Second, investment in conventional generation assets should be relatively flat year on year as spending on GenConn and Cottonwood should give way to spending on El Segundo. But conventional CapEx could increase depending on our development success at Astoria, [Swaharo] or Encina and also whether we find any strategic assets that could be acquired at value.

Third, capital invested in Green retail should drop precipitously as obviously the big expenditure in this area in 2010 was the acquisition of Green Mountain. The amount of capital that we will be investing in and around Green Mountain's business in 2011 or to expand into new geographic markets, bigger customer segments and new complementary green product offerings is fairly minimal.

And finally and similarly, and perhaps contrary to popular investor belief, even if the STP nuclear development project stays on course, the development capital projected to be required of NRG in 2011 will be far less than half of what we invested in 2010, and will be a mere fraction of what we will be investing in solar projects and other capital allocation alternatives. So this was a lot to digest, so let's go through it a little bit more slowly starting on slide seven with Green Mountain.

Four months ago we paid $357 million for a business that we expect to contribute $70 million, $80 million of EBITDA in 2011. Plus, we expect Green Mountain to continue to deliver on the 20%-plus compound annual growth rate trajectory that they have delivered for the past decade.

But we did not acquire Green Mountain just to continue with business as usual. We wanted to take advantage and we wanted them to take advantage of what we believe are very substantial synergies between Green Mountain and NRG.

Essentially, we want Green Mountain to accelerate the depth and breadth of their growth in close cooperation with us on the same path that they were following on their own, which means expansion into high retail price Northeast markets where they start with a natural green-leaning constituency. Also expansion into the larger commercial segment of the C&I market than they have previously sought to access, and finally expansion of their value-added product offerings to include distributed green generation.

It's early days yet. But at least on the first two of these, they are already beginning to bear fruit. Green Mountain has established a small but fast-growing footprint in New York Zone J.

And in terms of larger C&I customers, they have won landmark business like the Empire State building. We expect to be reporting on these and many more successes from and with Green Mountain as the year progresses.

Turning to conventional generation on slide eight, 2010 was an uneven year with the successful acquisition of Cottonwood and the repowering of Devon and Middletown, balanced by the missed opportunities surrounding Dynegy's California assets. Cottonwood and Devon have been smoothly integrated into our South Central and [knee pull] lineups respectively, and we're very pleased with the results today.

Looking forward to 2011 we're very focused on the successful repowering of El Segundo and the benefits which we hope to derive from having a modern, fast start, low heat rate, combined cycle plant inside the Los Angeles Basin load pocket. Beyond El Segundo we hope to make progress on similar repowering efforts at Astoria in New York City and Encina in San Diego County.

Beyond our own repowering pipeline, the capital we deploy in the acquisition of conventional power plants obviously will depend on market conditions and asset availability in our core regions. While the acquisition market is lumpy, generalities are difficult, predictions are often proved wrong, the optimism I once held that the first half of 2011 would be a buyer's market for CCGTs in the United States has largely dissipated. I see no signs of a flood of assets on the market. And the combined cycle transactions which have been announced recently have been priced at levels significantly above what we could justify to ourselves or explain to our shareholders.

With respect to our nuclear project, while important steps forward have occurred in several areas since our last earnings call, very little of it can be seen with the naked eye. As before, really all critical aspects of the STP 3 and 4 project run off of our receipt of an acceptable conditional loan guarantee from the government.

Certainly it is a challenge for us to complete meaningful discussions about PPAs with potential offtakers while the loan guarantee application remains pending. So our exit ramp analysis, which is set forth on slide nine, remains largely unchanged from the previous quarter.

Likewise our viewpoint with respect to NRG's continued participation in the project remains that the most challenging of these hurdles, which is the long-term offtake requirement, effectively needs to be addressed no later than the third quarter 2011 before the project enters the substantial pre-construction phase. As such, we reiterate the view, which is clearly articulated in both our 10-K and in today's earnings release, that NRG will be in a position by late this summer to make a final decision on our continued financial participation in this project. At that point the market should have substantially greater clarity about the prospects of this project and NRG's role in it.

While we understand that there is skepticism among some investors that the project can go forward in the current low gas price environment, we nonetheless believe that might be helpful to you for us to outline as shown on slide ten the future capital commitment of NRG in respect to this project, should it stay on track with NRG continuing to support it financially.

The overall message is that due to a combination of, first, the very substantial sum that NRG has previously committed to the project development particularly during the first half of 2010 after the settlement with CPS. Second, taking into account our expectation of an optimal hold amount in the project for NRG of approximately 40%, which is down from the 67% that we will own if and when TEPCO invests in the project post loan guarantee award. And third, due to the value ascribed to our NRG for its contribution of this site, NRG's cash commitment to the project on forward is less than would otherwise be suggested by our projected ownership level.

In summary, should the project proceed to financial closing, the total cash commitment for NRG at our 40% hold level should be something just short of $800 million in aggregate including cash invested to date. Beyond that we're likely to have an LC commitment to a standby equity cost overrun facility that will be fixed. And while that number has not yet been finally fixed, you should be thinking in the range of a few hundred million dollars maximum.

In exchange for this size investment in STP 3 and 4, we expect cash flow from dividends and tax benefits in the range of $500 million a year for the first several years of operations. Obviously this is a very attractive return, but one which we believe is well justified given the extraordinary challenges of the undertaking.

Now, pulling it back from where we hope the project will be in 2016 or 2017 to where we are here in the first quarter 2011, you should be focused on what happens after announcements of acceptance of the loan guarantee. As the loan guarantee acceptance announcement will trigger certain funding obligations from our partners, NRG's share of cash development spend for the remainder of the development phase should approximate $50 million for all of 2011 and half of that for 2012.

While our prospective 2011/2012 development spend is perhaps substantially less than many in the market we're anticipating, it remains a lot of money to us. And we're taking very seriously our commitment to retain our financial discipline around this project and prevent exposure of our balance sheet beyond the specific commitments that I've outlined in this presentation.

Now turning to slide 11, last but certainly not least there is the solar pipeline. I've said many times and I will repeat here that in my 20 years in this business, I've never seen investment opportunities in the sector that offer a more attractive combination of high returns, low construction risk, long-term PPAs and repeatable business opportunities than the utility sized solar projects that we currently have in our advanced development portfolio.

As such, we intend to do as much of this business which we can get our hands on. With the result being that, by the end of this year, we may well have a total initial equity investment in our solar portfolio that exceeds the total amount that we may ever invest in STP 3 and 4, and at very attractive near term returns.

The limiting item for us in terms of these solar investments is our ability on our own to make optimal use of the considerable tax benefits which will be generated by these projects. This is a topic that Chris Schade will discuss in a few minutes.

What I will end by saying is that this extraordinary pipeline of utility sized solar projects, which our colleagues at NRG Solar have managed to develop or acquire, provides us with a truly unique opportunity to develop over the next few years a solar portfolio of true scale and significant benefit, even in the context of the larger portfolio of NRG.

Ultimately, however, we fully recognize that the current generation of utility sized solar and wind projects in the United States is largely enabled by favorable government policies and financial assistance. It seems likely that much of that special assistance is going to be phased out over the next few years, leaving renewable technologies to fend for themselves in the open market.

We do not believe that this will be the end of the flourishing market for solar generation. We do believe it will lead to a stronger and more accelerated transition from an industry that is currently biased towards utility sized solar plants, to one that is focused more on distributing even residential solar solutions on rooftops and in parking lots.

We already planning for this transition now within NRG, so that any potential decline in either the availability of utility sized solar projects, or in the attractiveness of the returns being realized on these projects will be exceeded in aggregate by the increase in the business we are doing on smaller distributed and residential solar projects through our Green Mountain and even our Reliant sales channel.

With that, I will turn it over to Mauricio.

Mauricio Gutierrez ***NRG Energy - COO***

Thank you David and good morning everyone. NRG continued its strong operating and commercial performance during the fourth quarter, making 2010 one of NRG's best years. Slide 13 highlights a few of these key accomplishments achieved in 2010.

Starting with safety, we're particularly pleased with our record performance this year. Our OSHA recordable rate improved 26% over 2009. Our [fleet] performance remains strong with 90% availability of our baseload fleet, just shy of our 2009 level. This performance was achieved despite the forced outage of our STP nuclear plant in November which I will cover in more detail in the next slide.

On the environmental front we delivered our second best year and our [4 NRG] program far exceeded our 2010 goal. As I mentioned to you on our last call, controlling our costs is a priority given the challenging economic environment our industry is facing.

Our commercial operations group increased our hedge levels in 2011 and continues to look for opportunities to catch the out years of favorable prices. We successfully transitioned to the (inaudible) marketing (inaudible) and began integrating Green Mountain Energy and the Cottonwood combined cycle plant into our portfolio.

In respect to our projects under construction, the Indian River Unit 4 environment backend control project continues to be on track and on budget to be operational by January 2012.

Our Middletown project in Connecticut received all major equipment in the fourth quarter and continues to be on schedule for operation this summer.

Finally, El Segundo Energy Center completed aboveground demolition of two existing units and secured major equipment orders. El Segundo is on track to be operational by the summer of 2013.

Turning to our plan performance metrics on slide 14, safety continues to be our number one priority. We're very proud to report that we achieved top deciles in the industry, making 2010 our best OSHA recordable year. We have 25 sites with no injuries and nine sites certified or recertified as OSHA DTP Star Award sites.

Net generation decreased by 6% in the fourth quarter due to mild weather across Texas and a 22-day unplanned outage at STP Unit 2 during the month of November. The forced outage event was a result of a breaker major failure during routine testing and was extended to repair a reactor cooling pump seal. In order to prevent recurrence, similar electrical components were checked in both units. Unit 2 has operated without any issue since it was brought back to service on November 26.

For the full year, net generation was flat from 2009 levels. Increased duration in the Northeast and South Central regions, driven by the strong summer weather and the addition of Cottonwood, were offset by lower generation in California and Texas.

For 2010 our coal fleet availability finished the year above the top quartile performance levels in the industry. WA Parish led the fleet with 92.6% availability factor. And Limestone had the best reliability for the year with a 1.6% forced outage rate.

Our four NRG 2.0 programs exceeded the 2010 goal by $49 million and it is on track to achieve our goal of $150 million by 2011, one year earlier than planned. Savings were achieved through a combination of reliability, capacity and efficiency improvements at generating assets and cost savings across our corporate and regional groups.

Turning to our retail operations on slide 15, we closed out the year with another strong quarter. Volumes and energy margins were consistent with our forecast while operations delivered better than expected asset management and lower operational costs.

The Mass segment continues to drive significant improvement in net customer attrition with a 57% reduction in the fourth quarter versus 2009. This result was driven by marketing, sales and introduction of innovative products to meet our customer needs. In 2010 we led Texas in innovation, enrolling over 175,000 customers on our Reliant e-Sense product and services that utilize Smart Grid technology.

We also introduced new unique offers like (inaudible) and home protection products, adding not only incremental EBITDA but increased customer stickiness. We continued to maintain the lowest PUC customer complaint rate while balancing customer count and pricing. Throughout 2010 Reliant successfully demonstrated that it has stabilized customer attrition and expects to achieve zero net attrition in 2011.

In the C&I segment both renewal and new deal win rates continue to improve. We have expanded our business in several Northeast states where we can leverage existing NRG assets and increase product offerings to include products such as backup generation. This provides a solid platform to grow our business in 2011.

Business continues to show some fundamentals as you can see on slide 16. Weather-normalized demand grew by 2% year on year, and ERCOT set a new winter peak load of 57 GW in February. An increase of almost 2.5% from the previous record.

I would like to take this opportunity to address the events in Texas on February 2. The men and women of NRG Texas worked very hard to help meet the high demand for electricity due to the extreme cold conditions, increasing our generation by more than 60% [from] the previous day.

Although we had some operational issues, of the approximately 9500 MW of power we had available in Texas during the [load share] event, we maintained between 97% and 91% of that capacity online. I want to thank all our employees in Texas for their dedication and extraordinary efforts during these events.

Now moving on to reserve margins and ERCOT, we see a positive picture of our generation portfolio with reserve margins tightening faster than expected. This is to some extent reflected in the forward heat rates, as you can see in the chart in the lower right-hand corner. We believe this trend will continue given the robust load growth and the expectation that asset retirement will outpace new build.

We have not seen as much [auto gas] switching in Texas as we have in the Northeast and Southeast regions. In fact, gas generation was down year-on-year due to increases in [new pull and regeneration] in Texas.

In the Northeast, capacity markets continue to make some news. In New York the recent FERC order to increase cost of new entry should provide a boost to capacity prices in New York City and rest of the state, benefiting our New York portfolio.

In PJM prices remain uncertain until more clarity is given around the minimum offer price rule, the subsidized generation in New Jersey and Maryland, and [review] demand outlook.

Moving onto slide 17, you can see our detailed plans to control air emissions for each of our coal plants. As stated in our last earnings call, our plan is to invest approximately $720 million through 2015 in environmental projects [stated] to comply with future regulations.

Just to remind everyone the proposed [failure rule] does not require additional capital for compliance. The hazmat proposed rule should be released in mid-March. And as you can see in the table our [plant considers] mercury controls on all our coal units.

Intake qualifications and repowering are expected to meet (inaudible) [cooling] requirements. We only have dry fly ash disposal at our [all-coal] facilities. And finally, in most of our facilities we burn low sulfur, low chlorine TRV coal.

Moving onto our hedge profile and commodity sensitivities on slide 18, our baseload portfolio is now 100% hedged in 2011 and 50% hedged in 2012, providing good protection in the short term where gas prices continue to be weaker given the oversupply situation. Beyond 2012 we choose to remain significantly open. After two years of low gas prices we believe the downside risk is limited.

Our combination of incremental demand from the power sector, particularly in light of possible coal plant retirements, some signs of [drilling restraint] by producers, indications that drilling (inaudible) acreage may be ending, and a move from dry to wet gas production will provide better opportunities to hedge our baseload portfolio in the future.

With respect to retail, we have increased our [pipe] load to 66% in 2011 from 57% in the third quarter. We continue to match as much generation load as possible to strike maximum synergies between our retail and (inaudible) portfolios.

Our power and coal hedges continue to be well managed in 2011 and 2012. Given the shape of the coal curve and steep contango, we have not added any additional hedges since last quarter. We also remain well hedged in terms of [cost transportation] now for some time.

Our sensitivity to commodity prices is negligible for 2011, with 2012 to 2015 largely unchanged from last quarter. Let me remind you that this sensitivity is around our baseload portfolio. If heat rates expand, our portfolio is well-positioned to benefit, particularly in the Texas and South Central regions.

With that, I will turn it over to Chris, who will discuss our financial results.

Chris Schade ***NRG Energy - CFO***

Thank you Mauricio and good morning. Beginning with the financial summary on slide 20, full year 2010 adjusted EBITDA was $2.514 billion, just shy of the record 2009 adjusted EBITDA of $2.618 billion, and within our previously stated guidance of $2.5 billion to $2.55 billion.

As a result of our continued strong operating performance, adjusted cash flow from operations for 2010 was robust at $1.76 billion. The Company's liquidity position at year-end, excluding funds deposited by a counterparty, stood at nearly $4.3 billion -- a $458 million increase from December 31, 2009 liquidity of approximately $3.8 billion.

Our cash balance at year-end 2010, available for both working capital as well as our 2011 capital allocation program, was approximately $2.9 billion.

Now, turning to a summary of our 2011 guidance and capital allocation plan. First, we reaffirmed the preliminary 2011 EBITDA guidance range of $1.75 billion to $1.95 billion. Second, and as part of our 2011 capital allocation program, we are planning to repurchase $180 million of common stock and complete $240 million of term loan debt repayments and $39 million for additional facilities, all of which is consistent with NRG's commitment to return excess capital to its stakeholders.

Third, in 2011, in addition to the amounts deferred from 2010 as a result of extending the cash grant availability, we're currently planning to commit an additional $640 million of net investment to advance our repowering and renewable development program, particularly utility scale solar.

Now turning to a more detailed review of 2010 adjusted EBITDA results on slide 21. The Company reported near record results of $2.514 billion adjusted EBITDA, only $104 million lower than the 2009 adjusted EBITDA of $2.618 billion. These results were achieved despite the decline in forward prices across all of our regions, and clearly benefited from our wholesale generation hedging program and the continued strong performance of Reliant Energy.

During the year, Reliant Energy contributed $711 million of adjusted EBITDA. Comparatively, these results are lower by $158 million from 2009 as we [override] for only eight months of that year. The year-on-year decline was driven by an 18% decline in Mass margins, which were the direct result of price reductions enacted following the acquisition, as well as lower margins on customer renewals and new customer acquisitions reflective of the competitive market. All told, for 2010 Reliant saw net customer attrition rates improve to 0.4% from 0.7% in 2009, with total customers at year-end steady at 1.5 million.

The wholesale business, meanwhile, generated $1.8 billion in adjusted EBITDA, $173 million lower as compared to a record 2009 EBITDA of $1.976 billion. The comparative year-to-date decline is largely explained by a 32% drop in baseload hedge prices in the Northeast, as well as lower margins in Texas caused by a 16% increase in fuel costs due largely to higher coal transportation costs at our WA Parish facility.

These results were partially offset by an increase in adjusted EBITDA of $28 million from the South Central region due to increases in generation and contracted sales. Also increasing adjusted EBITDA were newly acquired assets including Green Mountain Energy, Cottonwood, Northwind Phoenix, South Trent Wind Farm as well as a full year of operations from the Blythe Solar project.

For the fourth quarter the Company reported adjusted EBITDA results of $444 million, a $45 million decline versus 2009. Reliant Energy contributed $117 million of adjusted EBITDA compared to $104 million for the fourth quarter of 2009. Reliant's quarterly results were favorable $13 million driven by an improvement in operating costs, primarily due to better customer payment habits as related to a decrease in bad debt expense.

In the fourth quarter 2010, our wholesale generation business contributed $327 million of adjusted EBITDA, a $58 million decline compared to fourth quarter 2009. The change in results can largely be attributed to the following items.

In the Northeast region 35% lower hedge prices and a 25% decrease in generation resulted in a $57 million decline in energy margins quarter over quarter. The decrease in generation was largely a result of coal bed natural gas switching. And offsetting this decline in energy margins were favorable year-on-year operating and maintenance expenses of $13 million.

In Texas, the 10% decline in generation at the Limestone and WA Parish facilities due to lower power prices and reduced demand led to a 6% decline in overall generation for the region. Offsetting this decline were favorable year-on-year operating expenses of $17 million that included gain on land sales of $6 million in 2010.

Now turning to slide 22, as I mentioned a moment ago, total liquidity at year-end 2010 excluding funds deposited by hedged counterparts remained strong at nearly $4.252 billion. Total cash stood at $2.959 billion, an increase of $653 million as compared to the 2009 year-end cash balance of $2.3 billion. The drivers of the cash increase included adjusted cash from operations of $1.76 billion and debt proceeds of $1.317 billion.

These increases were offset by several items. First, five completed acquisitions totaling about $1 billion which included $507 million for Cottonwood generation station, $357 million for Green Mountain, $100 million for Northwind Phoenix, $32 million for South Trent Wind Farm and for the US solar portfolio 720 MW of development projects in nine states, and California and Arizona.

Second, debt and fee payments totaling $813 million, including term loan B payments of $453 million and a repayment of the common stock fund or CSF of $190 million. And third, capital expenditures excluding [NINA] of $445 million, including $199 million of maintenance, $184 million of environmental primarily rated to the Indian River air quality control system project, and $62 million of growth investments.

For the full year we made cash contributions to NINA totaling $170 million primarily in the first half of 2010. And finally we completed share repurchases of 8.5 million shares totaling $180 million.

Now turning to 2011 guidance on slide 23. Our EBITDA guidance remains unchanged from the November 24 range of $1.75 billion to $1.95 billion. Included in this guidance range are wholesale expectations of $1.2 billion to $1.3 billion, retail expectations of $480 million to $570 million and Green Mountain of $70 million to $80 million.

As Mauricio discussed earlier, we are about 100% hedged on our baseload generation for 2011 and are thus comfortable with our forecasted results. As we look forward to our wholesale business in 2012, we're currently [in excess of] 50% hedged but at a higher average price than 2011, as indicated in our SEC filings.

Due to this position and based on the current forward curves, we expect flat to marginally lower year on year wholesale results in 2012 from 2011. These results will be supplemented with adjusted EBITDA of $85 million from our repowering and solar investments in 2012 that are not subject to market fluctuations.

For our retail business in 2011 our current expectations, assuming normal weather, are an EBITDA range of $480 million to $570 million. The decrease from 2011 guidance compared to current 2010 results is largely explained by lower unit margins in Reliant's Mass business. Reliant C&I margins are also expected to decline slightly, but be directly offset by higher terawatt hours served, reflecting our continued dedication to this growing client base in both Texas and PJM.

Finally, we expect Green Mountain Energy to contribute $70 million to $80 million of EBITDA. We're very excited about enhancing the growth prospects for our green energy retail business and are in the process of integrating the business with our growing renewables portfolio to enhance these future growth prospects.

During our Q3 earnings call we discussed the 2011 free cash flow guidance of $425 million to $625 million. And we now currently anticipate free cash flow for 2011 to be in the range of $150 million $350 million. The difference in guidance is largely explained by certain timing of solar projects due to Congress extending the availability of cash grant for renewable projects through 2011.

NRG postponed its large investments of solar projects from 2010 to 2011, resulting in $267 million of solar expenditures pushed into 2011 and relates primarily to our Agua Caliente, Ivanpah, and CVSR solar projects.

As we often like to emphasize, we're in a strong cash flow position. And based on Friday's closing stock price of $20.89 and our affirmed outlook, free cash flow before growth yield currently stands at between 16% to 20%, or $3.36 to $4.17 per share.

Slide 24 shows the Company's projected 2011 year-end cash position which we project to be about $2.5 billion. Beginning with a portion of the capital allocation plan that includes share repurchases and debt repayments in 2011, the Company intends to repurchase $180 million of common stock, which is within the constraints of the restricted payments basket. Repay $240 million of debt related to our term loan B agreement and approximately $39 million at other facilities. It is important to note that the Company made a term loan B prepayment in November that totaled $200 million.

And finally, complete $907 million of capital allocation in the following projects. $50 million in NINA, $219 million for other repowering back investments including El Segundo, GenConn Middletown, eVgo, Texas Reliability and Princeton Hospital, and $638 million for solar projects net of cash grant proceeds and including the $267 million of deferred payments from 2010.

During the third quarter conference call I also mentioned that we usually maintain a minimum cash balance of $700 million, largely for working capital, margin requirements and timing of cash payments of interest, property taxes as well as equity for projects we have under construction throughout the year. Thus in 2011 we estimate a balance of just over $1.8 billion to allocate between perhaps additional share repurchases contingent on the restricted payments basket expansion, further investments of high growth opportunities and continued opportunistic management of our debt structure.

On January 11, the Company issued $1.2 billion of 7-5/8 senior notes due 2018 and announced the simultaneous cash tender for $1.2 billion of the outstanding 7.25 senior notes due 2014.

As of January 25, nearly $945 million bonds had tendered and the remaining $250 million will be redeemed by the end of February pursuant to the embedded call price. As a result we've improved our debt maturity profile. All of our public debt matures after 2016 and replaced a restricted covenant package with one permitting greater efficiency and flexibility to return value to all NRG stakeholders.

On a go forward basis, we will continue to monitor the embedded calls in the 2016 and 2017 maturities, and be opportunistic about replacing those bonds with less restrictive covenant packages, similarly to how we handled the 2014 maturity.

Looking at NRG's combined repowering and solar portfolio and our EBITDA contribution on slide 25, you can clearly see the benefit of the program with nearly $550 million of recurring contributions by 2015. During the fourth quarter our El Segundo repowering project received final approval from the California Public Utilities Commission for a 10 year power purchase agreement with Southern California Edison. Commercial operation is expected in the summer of 2013.

Our large utility scale solar projects will also begin to reach commercial operations between the summer of 2013 and the first quarter of 2014. And these projects collectively are driving this EBITDA growth. These solar investments are attractive for these high teens returns, very low construction risk, and offtake agreements of 20-plus years with highly rated counterparties.

We will continue to provide updates on the progress of these projects as they move into construction and operations.

As we continue to invest and grow our solar portfolio, it is important to highlight the cumulative economic benefits created with these projects. Slide 26 shows how the combination of cash grant, [matrix] depreciation and strong cash flows from the PPAs for our projects result in a payback for our investment, in some cases by 2014, and retain stable cash flows for the remaining term of the PPAs.

Though we believe there will be a turnaround in the commodity markets, we're mindful of our ability to create enough taxable income for us to fully absorb tax benefits created by these solar investments. There is clearly a limit of how much tax efficiency we can absorb in any one year before reducing the total project returns.

As such, to both minimize the tax leakage and enhance our returns, in 2011 we will pursue new equity investors for our solar portfolio who have both the appetite for tax benefits and seek investment to one of the largest utility scale solar portfolios in the world. New equity investors would not only optimize our existing tax position, but allow us to continue to invest in future projects with higher returns. We expect to launch this initiative soon and look forward to sharing the progress in the future.

Now I will pass it back to David for final comments.

David Crane ***NRG Energy - CEO***

Thank you Chris and thank you Mauricio. So in conclusion, on slide 28 we put what we think are some of the value drivers around the investment proposition at NRG. It starts with the fact that 2.5 years into the commodity price downcycle, it appears to us that the end is in sight. The bottom of the trough has been reached and the only way to go is up.

When and how quickly gas prices will recover remains open to conjecture. But the case for rising heat rates in our core market of Texas is clear and compelling. And we have positioned our portfolio and our hedge book to benefit from that upturn.

Second, even in a political environment that has turned more conservative in the past year, market mandates for renewable generation -- and for solar power in particular -- remain well supported in both red and blue states. And the result for us has been a fast-growing portfolio project that will contribute substantially to shareholder value creation over the short to medium term.

Finally, there's the inherent value unique amongst our peer group of wholesale generation combined with a leading retail position. While we've executed to such great success in Texas together with Reliant, we're now in a position to replicate with Green Mountain in the fast-growing green and retail energy sector.

It is a bright future indeed. And for all of us at NRG, we will strive to realize its (inaudible) on behalf of the shareholders of NRG. So, Deanna with that, we would be happy to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Daniel Eggers, Credit Suisse.

Daniel Eggers ***Credit Suisse - Analyst***

Good morning. David, I was just trying to marry off some of the comments you made about some of the solar investment opportunities. If I look at slides 25 and 26, the cash investment and then the earnings contribution you guys showed there, is that based on the things that are in hand right now? Or is there a -- assumption of the amount of incremental projects you would have to get signed this year to help get to those numbers?

David Crane ***NRG Energy - CEO***

I think what we're showing, Chris, correct me if I'm wrong, the Tier 1 -- which are projects which, my personal estimation, are ones that have 90%-plus chance of achieving financial closure.

Chris Schade ***NRG Energy - CFO***

Yes, that's actually correct.

Daniel Eggers ***Credit Suisse - Analyst***

Okay. So these are things that are going to be in place. And this will be less contribution than what you said in your comments earlier, David, about having equity investment in solar greater than what you would see in South Texas ultimately?

David Crane ***NRG Energy - CEO***

I'm sorry, Dan. Say again.

Daniel Eggers ***Credit Suisse - Analyst***

This earnings contribution represents an investment less than what you think you could get too, from a solar perspective, based on your comments earlier in the presentation.

David Crane ***NRG Energy - CEO***

(inaudible) Well, there are more projects behind this portfolio. I'm sorry.

Daniel Eggers ***Credit Suisse - Analyst***

Okay. When do you see the opportunity this year to announce off projects? And how would you see this sell down of equity go as far as changing the earnings contribution profile from these projects? How much could you sell down do you think?

David Crane ***NRG Energy - CEO***

We're going to get down to how much we can sell down as we move through the process. But very clearly any the amount we sell down will sort of be a pro-rata reduction in EBITDA. So depending on how much we do, we will certainly let you know.

But we do believe that the sell down will allow us to provide incremental more equity into other projects we have yet to announce. But which, as David said, are on the bubble given the benefits that -- from the government largess, which we think still exists but perhaps will run out in the next couple of years.

Daniel Eggers ***Credit Suisse - Analyst***

Okay. Got it.

David Crane ***NRG Energy - CEO***

And those projects will also be assumed to have returns consistent with what we have seen to date.

Daniel Eggers ***Credit Suisse - Analyst***

Okay. And I guess just one last question on South Texas. David, if you could maybe just re-go through the numbers as far as how much cash you expect to throw off in the project. And to clarify that contribution is based on kind of the pricing you would need to be able to receive in order to earn an economic return on that project.

David Crane ***NRG Energy - CEO***

Well, the -- so you're saying your (multiple speakers) you are actually looking forward to 2016 and 2017? The -- yes, looking at page 10, through the first few years when we talk about receiving $500 million of cash, that is based on our view on where gas prices go. Which is obviously some way up from where they are now, sort of in the $6 to $7 range.

Having said that, Dan, we have stressed the returns on a nuclear project from an IRR perspective sort of for $4.00 a gas perpetuity model. And the IRR on the project would still be in double digits. But obviously the higher gas prices, the better it would do. But it works, the numbers work even in a $4.00 gas environment.

The reason that is the case is because obviously the tax benefits associated with the nuclear project, particularly the production tax credits, mean that through the first several years the nuclear project the economics are more driven actually by the tax benefits than they are by the price of electricity.

Daniel Eggers ***Credit Suisse - Analyst***

Do you see your IRRs working in $4.00 gas to the equivalent of a mid-30s power price, you would see the plant being economic?

David Crane ***NRG Energy - CEO***

In a $4.00 gas the plant is -- yes. Again, it's a low teen return. I'm not sure that you -- it is not the return we're seeking. But it's not a single digit return or a negative return. So --

Daniel Eggers ***Credit Suisse - Analyst***

Okay. Got it. Thank you David. I appreciate the questions.

Operator

Ameet Thakkar, BofA Merrill Lynch.

Ameet Thakkar ***BofA Merrill Lynch - Analyst***

Just Mauricio, you had kind of indicated that you kind of stood pat with hedging despite, I guess, some uptick in heat rates in Texas. And you also didn't do much in the way of coal as well. Is your expectation that PRB prices should follow gas down? Or are you guys a little bit more neutral on gas at this point?

Mauricio Gutierrez ***NRG Energy - COO***

If you look at our hedge profile, the next two years we're pretty well hedged on both sides -- power and coal. We [can't] justify the contango that exists on the coal curve. And given the inventories that we have and the hedge profile, we think we can weigh -- you know, to be more opportunistic about when to hedge the coal prices.

With respect to gas, we continue to see further declines in the front part of the curve -- which we have been pretty well insulated. But as I mentioned in my remarks, I think when you look at 2012 and beyond and where those price levels are, we see very little downside risk from that. And we think that there are several factors that are converging that could potentially move gas prices significantly higher than where they are today.

Ameet Thakkar ***BofA Merrill Lynch - Analyst***

And then David, real quick on STP. I just want to make sure I understood, I guess, some of your answers to the previous question. So, you see the returns in kind of the teens area even at $4.00 gas for STP?

David Crane ***NRG Energy - CEO***

Yes, so the returns would be in the teens area in a $4.00 in perpetuity model. Again, this is based on the idea that we're running a model where there is roughly 1000 MW of power sold by long-term contract and the rest is taken into the merchant market. So the $4.00 gas would apply to the [2000] in the merchant market.

And yes, you're right. What it shows is a return in the teens in that sensitivity. I would also tell you, both in response to your question and I should have said to Dan. Also, we run this with no value associated to the zero carbon aspect of it. So a price on carbon directly or indirectly would be on top of this.

Ameet Thakkar ***BofA Merrill Lynch - Analyst***

Okay. And then -- so is like the 1000 MW of PPA cover, I guess, under that analysis -- is that really kind of the goal to kind of continue to move forward and not exit ramp [4] on slide nine?

David Crane ***NRG Energy - CEO***

Well, almost as a -- from the beginning I think that we have said to our investors that we, at least, would not proceed with the project unless there was a significant amount of long-term offtake associated with the project. And so roughly 1000 MW has been something we've talked about from the beginning.

On top of that, the conditional loan guarantee, if and when it is announced, it's called a conditional loan guarantee because there are conditions associated with it. And probably the most substantive condition -- the condition we would be focused on -- is that the government would require us to have approximately that same amount of long-term offtake agreement contracted. Which was a condition, again, that we were happy to agree with the government on since we had said that we wouldn't go forward with it either. So, that is why we would be doing that.

Ameet Thakkar ***BofA Merrill Lynch - Analyst***

Thank you guys.

Operator

Ted Durbin, Goldman Sachs.

Ted Durbin ***Goldman Sachs - Analyst***

Good morning. If I could just ask a little bit about the capital allocation. You're actually coming out of 2010 here with a high cash balance. I'm just trying to understand a little bit better the allocation of the capital towards the renewables and what not, maybe expanding that relative to returning cash to stakeholders. Maybe if you just talk a little bit more about that?

David Crane ***NRG Energy - CEO***

Sure. And as we've said we're committing to a $180 million stock repurchase. And that is what is in the confines of our restricted payment basket. We're also going to be making required debt repayments under our term loan program, term loan B program.

We've also earmarked a substantial investment in our solar projects. These are projects which we had -- some of which were announced late last year and early this year and would be subject to the cash grant program as under the government. So all of those projects, and repowering projects from El Segundo and GenConn Middletown.

But those are the programs, at least, that are part of the capital allocation program for this year. That is what we have announced.

We've also -- we have $1.8 billion after which we would be able to deploy into additional repowering should they be available, and new solar projects that we see on the horizon. As I said before, all of which offer us the opportunity for very attractive returns.

David Crane ***NRG Energy - CEO***

And just to add, Ted, I think you phrased the question almost as if it was an either/or, and I guess that maybe a little bit different. Given that Company's free cash flow generation and the cash we have on hand, we haven't really seen it as either/or. In terms of returning capital to shareholders through the share buyback, we do as much as we can under the restricted payment basket.

Over the past few years we have constantly evaluated whether or not we could negotiate a way to have more room to do more, but the expense of doing that has always made that impractical. So, from our perspective, it has not been an either/or decision. It's been -- do both.

Ted Durbin ***Goldman Sachs - Analyst***

That's helpful. That's kind of what I was getting at, is kind of that cost of getting the ability to do more of a buyback. You're still seeing that as not worth the expense of getting that.

Chris Schade ***NRG Energy - CFO***

That's right. We think the expense to negotiate with the bondholders is being punitive. As I said in prepared remarks, the approach that we took on the 2014 maturity to wait for the calls to come due, then to call away and refinance was, we felt, an attractive and cost beneficial way to do it.

We have calls coming up in February for the 2016 maturity which we will keep an eye on. 2017 are not yet callable; will be so within a year. The high yield market remains very attractive from a financing perspective, so we will continue to look at that closely.

But just to further what David said, with the excess cash in addition to the $180 million as we said, we'll certainly consider future stock repurchases if they can fall within the confines of any expansion we see in our restricted payments basket throughout the year as well.

Ted Durbin ***Goldman Sachs - Analyst***

That's helpful. If I could just follow-up and I appreciate the commentary on the asset side, it sounds like you're not seeing the values on the CCGT side that you were before. But you did do the Cottonwood transaction. Are there other holes in your portfolio where you say, we would clearly like to add some mid-merit assets. Whether it is more in South Central or whatnot, kind of talk about where you would like to build up the portfolio.

David Crane ***NRG Energy - CEO***

I think the place would like to build up the portfolio -- and again we've been fairly -- well, it took us six years to execute on the idea that we needed a low following plant in South Central. So just because I say this, I don't want to think any sort of announcement is around the corner because I'm actually skeptical that we can achieve anything.

But we would definitely like to have some more base to load following capability in PJM, particularly eastern PJM. Having said that, we don't have any optimism about anything coming available in that footprint that we would find probably at a reasonable price. But we keep our ear to the ground.

I would say that has been our [single] greatest priority, second to backing up Big Cajun, which we have now achieved with Cotton.

Ted Durbin ***Goldman Sachs - Analyst***

Okay, I appreciate the time. Thanks.

Operator

Jonathan Arnold, Deutsche Bank.

Jonathan Arnold ***Deutsche Bank - Analyst***

My question is -- on STP you believe the option for the second 10% that TEPCO would take had a May expiration date on it. We recall from the original 8-K. Is there a similar date around the base 10% investment that is contingent on the loan guarantee acceptance?

David Crane ***NRG Energy - CEO***

(multiple speakers)

Jonathan Arnold ***Deutsche Bank - Analyst***

Is May a kind of drop dead date for that whole arrangement with TEPCO?

David Crane ***NRG Energy - CEO***

I don't believe there's a drop dead date. And, John, Tokyo Electric well understands the pace of development. I think their enthusiasm for -- I don't want to speak for them, but I think their enthusiasm for participating in this project is unchanged from when we announced the deal a year ago.

So, I don't remember any [sense of] date. But I have a very high level of confidence that if the loan guarantee comes that Tokyo Electric will participate in the project.

Jonathan Arnold ***Deutsche Bank - Analyst***

Okay, thank you. Can you also give us a sense of what is -- obviously your contribution is relatively small over this '11, '12 period. What would the $25 million in '12 be, absent additional sell downs? And maybe some sense of how much is actually being spent at the project itself during this next couple of years?

Chris Schade ***NRG Energy - CFO***

Well, the -- what it would be without the sell down, I will have to get back to you on that. The amount of money that has to be invested towards notice to proceed is several hundred million dollars. But Jonathan, it is really hard to put it in those terms because a good portion of it is long lead time materials in Japan, which are actually funded with the credit facilities from Toshiba.

So, maybe we can breakout and provide to you or do it next quarter, just the development spend from now to notice to proceed against the sources of capital. Because it is really not useful to look at it as one lump sum because various things are paid for with different buckets of money.

Jonathan Arnold ***Deutsche Bank - Analyst***

Okay, if I might just on one other topic, what indications are you getting from DOE in these discussions of a level of hedging through PPAs that would be acceptable to them on the project?

David Crane ***NRG Energy - CEO***

I think the condition is very specific. And I think back, it's the same as I answered to Ameet. It's something just less than 1000 MW.

Jonathan Arnold ***Deutsche Bank - Analyst***

Okay. Thanks very much David.

Operator

Jay Dobson, Wunderlich Securities.

Jay Dobson ***Wunderlich Securities - Analyst***

Good morning, David. There was hoping you could give us some insight into the offtake discussions. The local media has covered some interesting transactions or at least proposals that you had. I was wondering if you could give us some insight into sort of where things stand and what your level of optimism is currently.

David Crane ***NRG Energy - CEO***

It's a good question. I think what I would say without -- I mean it's difficult to comment with discussions that are under way. In fact, normally we don't comment on it. But since, as you said, there's been discussions by the public, I guess I should say some things.

I would say first of all I think there's an openness, a willingness and interest on several load serving entities, large load serving entities in the Texas market to talk about long-term offtake. I would also say that the events of early February in Texas, where part of the reason the state had brownouts or even blackouts is because people couldn't get gas to some power plants. I think it has reinforced the idea that having fuel diversity in the state is something that load serving entities want to have.

So there is a fairly high level of interest from various parties. But the big qualifier I always put on this question is, right now it is as you say; it is really a discussion. The project isn't really real to offtakers until we have a loan guarantee. So I would describe anything that we're doing with any counterparty at this point as being preliminary.

And so that is what I would tell you. And based on what we're being told by the counterparties and their interest level, I'm guardedly optimistic. But mainly, my main attitude towards all of this is -- let's wait and see what happens when the loan guarantee is announced, because that's when our sales and our counterparties are going to have to get down to business. And people are going to have to make commitments on both sides. So that is the main thing.

And what we're trying to emphasize here is that that phase, and hopefully that phase will begin within the coming weeks, is something that basically needs to be resolved by the summer so that we can all have clarity. Us within the Company, you as investors and analysts as to where we stand vis-a-vis this project.

Jay Dobson ***Wunderlich Securities - Analyst***

Thank you David, that's helpful. As an unrelated follow-up, on the solar side, and I'm not sure this is good for you or Chris. I assume in addition to selling an equity stake you would consider selling a tax equity there. And how do you consider those two alternatives?

David Crane ***NRG Energy - CEO***

Yes, very much so. I think equity stake that we're contemplating is tax equity. It's a structuring issue. But we are certainly looking to pass off the tax attributes that are generated from this portfolio to tax equity investors.

I think one thing, as a follow-up to a question before, is that we will certainly be looking to sell this equity at a premium. The returns we are seeing perhaps from these investors are below the expected returns that we have seen in the high teens. So that sort of premium or IRR arbitrage game will certainly benefit us in having a development premium for this.

So -- but our goal here both is to bring equity into these projects and also to lay off some of the tax that perhaps does not necessarily accrue to NRG.

Jay Dobson ***Wunderlich Securities - Analyst***

Great. And Chris, just last follow-up, the capacity of the RP basket at year-end?

Chris Schade ***NRG Energy - CFO***

It was about $160 million. So the $180 million we announced today will be spread out for a couple of quarters.

Jay Dobson ***Wunderlich Securities - Analyst***

Okay, great. Thank you.

Operator

Brandon Blossman, Tudor Pickering Holt.

Brandon Blossman ***Tudor Pickering Holt - Analyst***

I guess just to follow-up on the tax equity question, probably for Chris. Is this, just to be clear; is the tax equity partner or sell down required to optimize the tax benefits of the current solar portfolio? Or is that something you need to do to increase the size of that portfolio?

Chris Schade ***NRG Energy - CFO***

I think it's not necessarily required. I think it benefits the returns of the portfolio and allows us to continue to invest in the space.

As David said, we're seeing a lot of opportunities elsewhere. And I think when we start to layer on other utility sized projects in addition to what we have, there is a limit to the capacity of tax attributes that we can assume. So we think it is important.

We're seeing a lot of interest and opportunities to invest in this space by sort of non-traditional investors who want to get green. And so we think it's a big opportunity for us -- who are certain taxpayers as well. So it is for us to sort of check a lot of boxes along the way, first and foremost to optimize our tax position in appropriate years, as well as to allow us to continue to invest in this space.

Brandon Blossman ***Tudor Pickering Holt - Analyst***

And how does that dovetail with STP's tax attributes? Is that far enough out so that there is no overlap here, or concerns about maximizing that value?

Chris Schade ***NRG Energy - CFO***

It is far enough out that were not perspiring about the tax attributes it generates. But certainly is a topic that we will address in due time. And it also would speak to our underlying business that we hope, and certainly think, will grow enough to (inaudible) through these NOLs and to continue to generate taxable appetite in those years. So we're confident of that.

Brandon Blossman ***Tudor Pickering Holt - Analyst***

Thanks. And David, as a follow-up, not that anyone wants this to happen, but if there is an exit ramp for STP, can you describe what that looks like? Is there a project to be had at some point in the future given that this is a particularly attractive development project?

David Crane ***NRG Energy - CEO***

Well, what I would say on a few fronts. It sort it depends on which exit ramp you're talking about. And I'm just speculating on things which of course we don't hope to happen.

From my perspective, I think if something happens during this year that caused the entire project to go away, we would probably finish the licensing process -- which is a small fraction of the overall development spend. But we are so far along with the NRC that to stop it this close to the end would not make sense.

But beyond that, would the project go forward? I think it depends on which exit ramp it is. Again, I don't mean to speak for the other partners because I want to emphasize to every NRG investor on the call, we do not have a right to kill the STP 3 and 4 project. We just have the right to stop our own financial contribution to it.

But I would say if the exit ramp is that -- actually it turns out that there is no loan guarantee in the offing, I haven't actually asked this question directly. But I think our partners in Japan and we would be aligned that there would be -- that the project would stop if there is no hope of a federal loan guarantee.

If, on the other hand, there was a federal loan guarantee but there was -- we were taking the exit ramp because we were unable to line up the offtake, I don't know what our partners would do in that circumstance. Maybe they would continue with the project. That would be their prerogative to do.

I just know that if we don't have that offtake arrangement, then we will stop funding.

Brandon Blossman ***Tudor Pickering Holt - Analyst***

And that would be -- not the 1000 MW, but isn't that predicated on the loan guarantee or the loan guarantee predicated on the 1000 MW?

David Crane ***NRG Energy - CEO***

It is. But one of the reasons why I don't know -- I don't remember the exact terms, the exact words of the conditional loan guarantee. But I know that we do not have the opportunity at NRG to solve for the offtake arrangement, because I think the condition is offtake agreements with investment grade offtakers.

Our Japanese partners who are investment grade would have that opportunity, should they so choose, to correct that on their own. We don't have that type of power. So that is not a question for us.

Brandon Blossman ***Tudor Pickering Holt - Analyst***

Got it. Very useful. Thank you guys.

Operator

Brian Chin, Citigroup.

Brian Chin ***Citigroup - Analyst***

Just a quick one, what is the rough range of construction cost estimates and dollar per KW for the solar PV facilities that you're seeing and also for the solar thermal side?

David Crane ***NRG Energy - CEO***

The range -- well, I think we would say the range right now is [3500 to 4000] per KW. And I don't know that would be for the PV -- I can't tell you -- the solar thermal would probably be in the same range.

Brian Chin ***Citigroup - Analyst***

Okay. And then would it be fair to say that $4.00 a sustained perpetual natural gas price environment that you would still see solar generating returns in the double digits as well? And is it higher or lower than nuclear?

David Crane ***NRG Energy - CEO***

Well, we haven't compared them side-by-side. But I think it is fair to say that like nuclear, the solar projects -- at this point the economics are very heavily driven by the tax benefits. But beyond that, the real difference between the two is that every solar project we're doing is completely not merchant. It's totally PPA.

So I don't think -- in fact, when we talk about taking the Company's financial performance and sort of de-linking it to natural gas prices, we put renewables together with retail in parts of our EBITDA stream that are not associated with natural gas prices, because of the fact that all of the economics are derived from long-term PPAs.

Brian Chin ***Citigroup - Analyst***

Right, right. And then one related unrelated follow-up, can you just talk a little bit about -- from your perspective -- what the FERC's order in the New York ISO and the capacity market situation up there, kind of what has changed longer-term? And how much of a positive is that for you guys or is it even material?

Mauricio Gutierrez ***NRG Energy - COO***

It is definitely material. It is difficult to say what is the ultimate impact because I think the variables are still being flushed out.

But the three main changes was -- that FERC did was a reclamation of state taxes in the cost of new entry calculation, interconnection costs and then the energy offset. So when you put those three together, you basically have higher cost of new entry, which will push capacity prices for both New York City and rest of state. This will benefit our New York portfolio. But at this point in time I can't give you the specific (inaudible).

Brian Chin ***Citigroup - Analyst***

Thank you very much.

Operator

Anthony Crowdell, Jefferies & Co.

Anthony Crowdell ***Jefferies & Co. - Analyst***

Just a quick question on I guess the cold spell that hit Texas earlier this month. It seemed like there wasn't much of an impact on the generation side. But was there any impact to the margins that Reliant expected or anything on the quarter?

Jason Few ***NRG Energy - President, ReliantEnergy***

Hi Anthony. This is Jason. From the retail side we actually fared fairly well through this event. Our hedging strategy and risk policies served us well during the event. We did not see material impact to our business.

Anthony Crowdell ***Jefferies & Co. - Analyst***

Great, thank you.

Operator

In the interest of time we have time for two more callers. Charles Fishman, Pritchard Capital Partners.

Charles Fishman ***Pritchard Capital Partners - Analyst***

Good morning. Your five-year environmental capital plan, page 17, I want to make sure I understand this. The $720 million includes your view of what the MACT might be, which is less than worse case, number one. And number two is -- there no dollars in the $720 million to address once through cooling. Is that correct?

Mauricio Gutierrez ***NRG Energy - COO***

No. Actually there is some dollars for 316(b) through the installation of screens. We've been very successful in New York and (inaudible) Dunkirk to address these issues. So while it addresses the mercury and has mercury controls across all our coal assets but also addresses the 316(b).

Charles Fishman ***Pritchard Capital Partners - Analyst***

If we do end up with a worst-case MACT, would this -- could this number increase 50%? Or do you have any feel for that?

Mauricio Gutierrez ***NRG Energy - COO***

Well, we actually disclosed that from our last earnings call. And I believe it is about $1 billion -- just shy of $1 billion if it was the worst-case scenario. In terms of unit specific control, no averaging and we just don't believe the EPA will go that route.

But the rule is going to come out. The proposal is going to come out in about a month and I think it is just prudent to wait before we make any changes.

Charles Fishman ***Pritchard Capital Partners - Analyst***

Thank you.

David Crane ***NRG Energy - CEO***

So, operator, I think you said there was one more call.

Operator

There are no more questions in queue at this time.

David Crane ***NRG Energy - CEO***

Okay, well, good. Thank you all very much and we look forward to talking to you in the next quarter. Thank you operator.

Operator

Ladies and gentlemen that concludes today's presentation. Thank you very much for your participation. You may now disconnect and have a great day.