

GenOn Energy, Inc.
Form 10-K
February 29, 2012

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[PART IV](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 1-16455

GenOn Energy, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

76-0655566
(I.R.S. Employer
Identification No.)

**1000 Main Street,
Houston, Texas**
(Address of Principal Executive Offices)

77002
(Zip Code)

(832) 357-3000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, par value \$0.001 per share, and
associated rights to purchase Series A
Preferred Stock

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Edgar Filing: GenOn Energy, Inc. - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$2,965,277,584 on June 30, 2011 (based on \$3.86 per share, the closing price in the daily composite list for transactions on the New York Stock Exchange that day).

As of February 17, 2012, there were 771,692,989 shares of the registrant's Common Stock, \$0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the 2012 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

Table of Contents

TABLE OF CONTENTS

<u>Glossary of Certain Defined Terms</u>	ii
<u>Cautionary Statement Regarding Forward-Looking Information</u>	vii

PART I

<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	30
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	43
<u>Item 2.</u>	<u>Properties</u>	43
<u>Item 3.</u>	<u>Legal Proceedings</u>	44
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	44

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	45
<u>Item 6.</u>	<u>Selected Financial Data</u>	47
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	49
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	97
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	103
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	103
<u>Item 9A.</u>	<u>Controls and Procedures</u>	104
<u>Item 9B.</u>	<u>Other Information</u>	104

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>105</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>105</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>105</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	<u>106</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>106</u>

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>107</u>
-----------------	---	------------

Table of Contents

Glossary of Certain Defined Terms

AB 32	California's Global Warming Solutions Act.
ancillary services	services that ensure reliability and support the transmission of electricity from generation sites to customer loads. Such services include regulation service, reserves and voltage support.
Bankruptcy Court	United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division.
baseload generating units	units designed to satisfy minimum baseload requirements of the system and produce electricity at an essentially constant rate and run continuously.
CAIR	Clean Air Interstate Rule.
CAISO	California Independent System Operator.
capacity	amount of energy that could have been generated at continuous full-power operation during the period.
CARB	California Air Resources Board.
CenterPoint	CenterPoint Energy, Inc. and its subsidiaries, on and after August 31, 2002, and Reliant Energy, Incorporated and its subsidiaries, prior to August 31, 2002.
CERCLA	Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980.
CFTC	Commodity Futures Trading Commission.
Clean Air Act	Federal Clean Air Act.
Clean Water Act	Federal Water Pollution Control Act.
Climate Protection Act	Massachusetts' Global Warming Solutions Act.
CO ₂	carbon dioxide.
Company	GenOn Energy, Inc. (formerly known as RRI Energy, Inc.) and, except where the context indicates otherwise, its subsidiaries, after giving effect to the Merger.
CPUC	California Public Utility Commission.
CSAPR	Cross-State Air Pollution Rule.
dark spread	the difference between power prices and coal fuel costs.
D.C. Circuit	the United States Court of Appeals for the District of Columbia Circuit.
deactivation	includes retirement, mothball and long-term protective layup. In each instance, the deactivated unit cannot be currently called upon to generate electricity.
Delta Noticing Parties	the Coalition for a Sustainable Delta, four water districts, and an individual.
Dodd-Frank Act	the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Edgar Filing: GenOn Energy, Inc. - Form 10-K

Table of Contents

EBITDA	earnings before interest, taxes, depreciation and amortization.
EPA	United States Environmental Protection Agency.
EPC	engineering, procurement and construction.
EPS	earnings per share.
Exchange Act	Securities Exchange Act of 1934, as amended.
Exchange Ratio	right of Mirant Corporation stockholders to receive 2.835 shares of common stock of RRI Energy, Inc. in the Merger.
FASB	Financial Accounting Standards Board.
FCM	forward capacity market administered by ISO-NE to procure capacity resources to meet forecasted demand and reserve requirements.
FERC	Federal Energy Regulatory Commission.
FGD	flue gas desulfurization emissions controls.
FRCC	Florida Reliability Coordinating Council.
GAAP	United States generally accepted accounting principles.
GenOn	GenOn Energy, Inc. (formerly known as RRI Energy, Inc.) and, except where the context indicates otherwise, its subsidiaries, after giving effect to the Merger.
GenOn Americas	GenOn Americas, Inc.
GenOn Americas Generation	GenOn Americas Generation, LLC.
GenOn Energy Holdings	GenOn Energy Holdings, Inc. (formerly known as Mirant Corporation) and, except where the context indicates otherwise, its subsidiaries.
GenOn Energy Management	GenOn Energy Management, LLC.
GenOn Escrow	GenOn Escrow Corp.
GenOn Marsh Landing	GenOn Marsh Landing, LLC.
GenOn Mid-Atlantic	GenOn Mid-Atlantic, LLC and its subsidiaries, which include the baseload units at two generating facilities under operating leases.
GenOn North America	GenOn North America, LLC.
GenOn Potrero	GenOn Potrero, LLC.
HAPs	hazardous air pollutants.
IBEW	International Brotherhood of Electrical Workers.
intermediate generating units	units designed to satisfy system requirements that are greater than baseload and less than peaking.
IRC	Internal Revenue Code of 1986, as amended.
IRC §	IRC section.
ISO	independent system operator.

Edgar Filing: GenOn Energy, Inc. - Form 10-K

Table of Contents

ISO-NE	Independent System Operator-New England.
Kiewit	Kiewit Power Constructors Co.
LIBOR	London InterBank Offered Rate.
long-term protective layup	a descriptive term for our plans with respect to the Shawville coal-fired units, including retiring the units from service in accordance with the PJM tariff, maintenance of the units in accordance with the lease requirements and continued payment of the lease rent. While the units are not decommissioned and reactivation remains a technical possibility, we do not expect to make any further investment in environmental controls to the units. Further, reactivation after the long-term protective layup would likely involve numerous new permits and substantial additional investment.
LTPP	Long Term Procurement Planning process by the CPUC.
LTSA	long-term service agreement.
MACT	maximum achievable control technology.
MADEP	Massachusetts' Department of Environmental Protection.
MAEEA	Massachusetts' Executive Office of Energy and Environmental Affairs.
Maryland Greenhouse Gas Act	Greenhouse Gas Reduction Act of 2009.
MATS	Mercury and Air Toxics Standards.
MC Asset Recovery	MC Asset Recovery, LLC.
MDE	Maryland Department of the Environment.
Merger	the merger completed on December 3, 2010 pursuant to the Merger Agreement.
Merger Agreement	the agreement by and among Mirant Corporation, RRI Energy, Inc. and RRI Energy Holdings, Inc. dated as of April 11, 2010.
Mirant	GenOn Energy Holdings, Inc. (formerly known as Mirant Corporation) and, except where the context indicates otherwise, its subsidiaries.
MISO	Midwest Independent Transmission System Operator.
mothball	the unit has been removed from service and is unavailable for service, but has been laid up in a manner such that it can be brought back into service with an appropriate amount of notification, typically weeks or months.
MW	megawatt.
MWh	megawatt hour.
NAAQS	National Ambient Air Quality Standards.
NERC	North American Electric Reliability Council.

Edgar Filing: GenOn Energy, Inc. - Form 10-K

Table of Contents

net generating capacity	net summer capacity.
NJDEP	New Jersey Department of Environmental Protection.
NOL	net operating loss.
NOV	notice of violation.
NO _x	nitrogen oxides.
NPCC	Northeast Power Coordinating Council.
NPDES	national pollutant discharge elimination system.
NYISO	New York Independent System Operator.
NYMEX	New York Mercantile Exchange.
NYSE	New York Stock Exchange.
OCI	other comprehensive income.
OTC	over-the-counter.
Ozone Season	the period between May 1 and September 30 of each year.
PADEP	Pennsylvania Department of Environmental Protection.
peaking generating units	units designed to satisfy demand requirements during the periods of greatest or peak load on the system.
PEDFA	Pennsylvania Economic Development Financing Authority.
PEPCO	Potomac Electric Power Company.
PG&E	Pacific Gas & Electric Company.
PJM	PJM Interconnection, LLC.
Plan	the plan of reorganization that was approved in conjunction with Mirant Corporation's emergence from bankruptcy protection on January 3, 2006.
PM _{2.5}	fine particulate matter.
PPA	power purchase agreement.
Protective Charter Amendment	the Certificate of Amendment to our Third Restated Certificate of Incorporation dated May 4, 2011.
Registration Rights Agreement	the agreement by and among GenOn Energy, Inc. and the initial purchasers of the notes dated as of October 4, 2010.
REMA	GenOn REMA, LLC and its subsidiaries, which include three generating facilities under operating leases.
reserve margin	excess capacity over peak demand.
retire	the unit has been removed from service and is unavailable for service and not expected to return to service in the future.
RFC	Reliability First Corporation.
RFP	request for proposal.

Edgar Filing: GenOn Energy, Inc. - Form 10-K

Table of Contents

RGGI	Regional Greenhouse Gas Initiative.
Rights Agreement	the agreement by and among GenOn Energy, Inc. and Computershare Trust Company, NA as rights agent, as subsequently amended.
RMR	reliability-must-run.
RPM	model utilized by PJM to meet load serving entities' forecasted capacity obligations through a forward-looking commitment of capacity resources.
RRI Energy	RRI Energy, Inc., which changed its name to GenOn Energy, Inc. in connection with the Merger.
RTO	Regional Transmission Organization.
SCR	selective catalytic reduction emissions controls.
scrubbers	flue gas desulfurization emissions controls.
SEC	United States Securities and Exchange Commission.
Securities Act	Securities Act of 1933, as amended.
SERC	SERC Reliability Corporation.
Series A Warrants	warrants issued by Mirant on January 3, 2006, with an exercise price of \$21.87 and expiration date of January 3, 2011.
Series B Warrants	warrants issued by Mirant on January 3, 2006, with an exercise price of \$20.54 and expiration date of January 3, 2011.
SNCR	selective non-catalytic reduction emissions controls.
SO ₂	sulfur dioxide.
Southern Company	The Southern Company.
spark spread	the difference between power prices and natural gas fuel costs.
Stone & Webster	Stone & Webster, Inc.
SWD	surface water discharge.
total margin capture factor	the actual gross margin for a unit from energy, and contracted and capacity divided by the total gross margin from energy, and contracted and capacity that could have been earned by the unit.
UWUA	Utility Workers Union of America.
VaR	value at risk.
VIE	variable interest entity.
Virginia DEQ	Virginia Department of Environmental Quality.
WECC	Western Electric Coordinating Council.
Wrightsville	Wrightsville, Arkansas power generating facility, which was sold by Mirant in the third quarter of 2005.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, the information presented in this Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These statements involve known and unknown risks and uncertainties and relate to our revenues, income, capital structure and other financial items, future events, our future financial performance or our projected business results and our view of economic and market conditions. In some cases, one can identify forward-looking statements by words such as "may," "will," "should," "could," "objective," "projection," "forecast," "goal," "guidance," "outlook," "expect," "intend," "seek," "plan," "think," "anticipate," "estimate," "predict," "target," "potential" or "continue" or the negative of these terms or comparable words.

Forward-looking statements are only predictions. Actual events or results may differ materially from any forward-looking statement as a result of various factors, which include:

more stringent (or changes in the application of) environmental laws and regulations (including the cumulative effect of many such regulations) that restrict our ability or render it uneconomic to operate our assets, including regulations related to air emissions, disposal of ash and other byproducts, wastewater discharge and cooling water systems;

changes in market conditions, including developments in the supply, demand, volume and pricing of electricity and other commodities such as coal and natural gas in the energy markets, including efforts to reduce demand for electricity and to encourage the development of renewable sources of electricity, and the extent and timing of the entry of additional competition in our markets;

legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the industry of generating, transmitting and distributing electricity (the electricity industry); changes in state, federal and other regulations affecting the electricity industry (including rate and other regulations); changes in tax laws and regulations to which we and our subsidiaries are subject; and changes in, or changes in the application of, other laws and regulations to which we and our subsidiaries and affiliates are or could become subject;

conflicts between reliability needs and environmental rules, particularly with increasingly stringent environmental restrictions;

price mitigation strategies employed by ISOs or RTOs that reduce our revenue and may result in a failure to compensate our generating units adequately for all of their costs;

legal and political challenges to or changes in the rules used to calculate payments for capacity, energy and ancillary services or the establishment of bifurcated markets, incentives or other market design changes that give preferential treatment to new generating facilities over existing generating facilities;

the failure of our generating facilities to perform as expected, including outages for unscheduled maintenance or repair;

our failure to use new or advanced power generation technologies;

strikes, union activity or labor unrest;

our ability to develop or recruit capable leaders and our ability to retain or replace the services of key employees;

Edgar Filing: GenOn Energy, Inc. - Form 10-K

weather and other natural phenomena, including hurricanes and earthquakes;

vii

Edgar Filing: GenOn Energy, Inc. - Form 10-K

Table of Contents

our failure to provide a safe working environment for our employees and visitors thereby increasing our exposure to additional liability, loss of productive time, other costs and a damaged reputation;

hazards customary to the power generation industry, including those listed in this cautionary statement and elsewhere in this Form 10-K, and the possibility that we may not have adequate insurance to cover losses resulting from such hazards or the inability of our insurers to provide agreed upon coverage;

our ability to execute our plan in respect of our Marsh Landing generating facility, including obtaining and maintaining the governmental authorizations necessary for construction and operation of the generating facility and completing the construction of the generating facility by mid-2013;

our relative lack of geographic diversification of revenue sources resulting in concentrated exposure to the PJM market;

our ability to enter into intermediate and long-term contracts to sell power or to hedge economically our expected future generation of power, and to obtain adequate supplies and deliveries of fuel for our generating facilities, at our required specifications and on terms and prices acceptable to us;

failure to obtain adequate supplies of fuels, including from curtailments of the transportation of fuels;

the cost and availability of emissions allowances;

the curtailment of operations and reduced prices for electricity resulting from transmission constraints;

the potential of additional limitation or loss of our income tax NOLs as a result of an ownership change as defined in IRC § 382;

terrorist activities, cyberterrorism and inadequate cybersecurity, or the occurrence of a catastrophic loss and the possibility that we may not have adequate insurance to cover losses resulting from such hazards or the inability of our insurers to provide agreed upon coverage;

deterioration in the financial condition of our counterparties, including financial counterparties, and the failure of such parties to pay amounts owed to us beyond collateral posted or to perform obligations or services due to us;

poor economic and financial market conditions, including impacts on financial institutions and other current and potential counterparties, and negative impacts on liquidity in the power and fuel markets in which we hedge economically and transact;

increased credit standards, margin requirements, market volatility or other market conditions that could increase our obligations to post collateral beyond amounts that are expected, including additional collateral costs associated with OTC hedging activities as a result of new or proposed laws, rules and regulations governing derivative financial instruments (such as the Dodd-Frank Act and related pending rulemaking proceedings);

Edgar Filing: GenOn Energy, Inc. - Form 10-K

our inability to access effectively the OTC and exchange-based commodity markets or changes in commodity market conditions and liquidity, including as a result of new or proposed laws, rules and regulations governing derivative financial instruments (such as the Dodd-Frank Act and related pending rulemaking proceedings), which may affect our ability to engage in hedging and proprietary trading activities as expected, or may result in material losses from open positions;

viii

Table of Contents

volatility in our gross margin as a result of changes in the fair value of our derivative financial instruments used in our hedging and proprietary trading activities and volatility in our cash flow from operations resulting from working capital requirements, including collateral, to support our hedging and proprietary trading activities;

the disposition of pending or threatened litigation, including environmental litigation;

our ability to access contractors and equipment necessary to operate and maintain our generating facilities and to design, engineer, procure and construct capital improvements required or deemed advisable;

the inability of our operating subsidiaries to generate sufficient cash to support our operations;

the ability of lenders under our revolving credit facility and the Marsh Landing credit facility to perform their obligations;

our consolidated indebtedness and the possibility that we or our subsidiaries may incur additional indebtedness in the future;

restrictions on the ability of our subsidiaries to pay dividends, make distributions or otherwise transfer funds to us, including restrictions on GenOn Mid-Atlantic and REMA contained in their respective operating lease documents, which may affect our ability to access the cash flows of those subsidiaries to make debt service and other payments;

our failure or inability to comply with provisions of our leases, loan agreements and debt, which may lead to a breach and, if not remedied, result in an event of default thereunder, which could result in such lessors, lenders and debt holders exercising remedies, limit access to needed liquidity and damage our reputation and relationships with financial institutions;

covenants contained in our credit facilities, debt and leases that restrict our current and future operations, particularly our ability to respond to changes or take certain actions that may be in our long-term best interests; and

our ability to borrow additional funds and access capital markets.

Many of these risks, uncertainties and assumptions are beyond our ability to control or predict. All forward-looking statements contained herein are expressly qualified in their entirety by cautionary statements contained throughout this report. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. We undertake no obligation to update publicly or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

In addition to the discussion of certain risks in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the accompanying notes to GenOn's consolidated financial statements, other factors that could affect our future performance are set forth in Item 1A, "Risk Factors." Our filings and other important information are also available on our investor relations page at www.genon.com/investors.aspx.

Certain Terms

As used in this report, unless the context requires otherwise, "we," "us," "our" and "GenOn" refer to GenOn Energy, Inc. and its consolidated subsidiaries, after giving effect to the Merger.

Table of Contents

PART I

Item 1. *Business.*

Overview

We are a wholesale generator with approximately 23,700 MW of net electric generating capacity located, in many cases, near major metropolitan load centers in the PJM, MISO, Northeast and Southeast regions, and California. We also operate integrated asset management and proprietary trading operations. Our customers are principally ISOs, RTOs and investor-owned utilities. Although our generating portfolio is diversified across fossil fuel and technology types, operating characteristics and several regional power ma