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To: John Charlton, NYISO

From: Jim Mayhew

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Subject: NRG preliminary comments on Proposed Demand Curve Assumptions

A. Overview

NRG offers these preliminary comments on the proposed modeling assumptions related to the 2008-2011 demand curve update as proposed by NERA and Sargent Lundy. These assumptions were presented at the December 21, 2006 ICAP Working Group. These comments are preliminary in nature and NRG reserves additional comment as the demand curve reset process continues.

B. Financing Issues.

NRG is of the view that the preliminary financing assumptions provide a cost estimate that is not realistic for the existing development market in New York for merchant generation. In order to facilitate generation development in the Northeast, major power developers target projects in which they can receive non-recourse debt financing with no parental guarantees. The proposed debt structure of 50% debt/50% equity with an on balance sheet financing of 6.5% debt and equity at 12% is not representative of such projects. It is further not representative of projects that do not expect to receive project financing from long term bilateral contracts.

To successfully receive non-recourse, non parental guarantee debt financing most developers target limited liability companies as the basis for the corporate structure for new plants. As a consequence of this, power projects generally will not be credit-rated or reflective of the 50/50 debt-equity structure. A more representative basis for financing under the limited liability company structure is at least a 60/40 or a higher debt-equity structure.

Developers will also seek to secure long-term power purchase agreements (PPAs) with a credit-worthy counterparty to lower the cost of the borrowing debt. Merchant generation expecting to receive the majority of the fixed investment recovery from the capacity market will carry a greater risk premium that is not reflected in the numbers for the December 21 assumptions.

To facilitate development, projects that minimize environmental and regulatory risks are preferred. In general, these projects have tended towards re-development efforts of existing facilities where many of the environmental permitting thresholds have already been achieved. Environmental emission initiatives that are underway will provide additional risk to new projects. The life of the proposed project investment recovery at 20 years represents a significant period in which much is unknown with respect to environmental and regulatory changes. No risk adder for a merchant facility has been provided for to account for the possibility of these unknown changes or the ability of the facility to collect such additional costs on a merchant basis.

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Regulatory risks, such as capacity and energy market reforms, also impact projects being developed on a merchant basis. Recent and proposed changes in the capacity market add to the additional risk of these units and do not reflect an appropriate period in which lenders will provide funds without a significant risk premium. For those merchant projects, lenders generally will either not loan the funds, or will ask considerably more in hurdle rate for the moneys borrowed. A shorter period of time then 20 years must be used to justify the financing structure contemplated by the December 21st assumptions.

To facilitate large loans, developers will implement the best available technology for generation and environmental consideration. The LM6000 technology is still being developed, but is rapidly being replaced by newer technology such as LMS100. The LMS100 technology is beginning to offer a greater thermal efficiency, with a reduced emission cost, a greater 10 minute start capability with a smaller pad requirement then the older LM6000 machines. This technology should not be overlooked for consideration for In-city generation costs.

C. Going Forward

NRG requests that the consultants reexamine the justification for the 20 year life for project financing, the use of financing that reflects non-recourse debt with a limited liability company, and significant risk premiums in the debt to reflect the environmental and regulatory risk associated with merchant plant development. NRG also requests that new technology such as the LMS100 not be rejected as out of hand but that it should be considered for In-City costs.