

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

In re:	)	
	)	Chapter 11
	)	
GENON ENERGY, INC., <i>et al.</i> , ¹	)	Case No. 17-33695 (DRJ)
	)	
Debtors.	)	(Joint Administration Requested)
	)	(Emergency Hearing Requested)

**DECLARATION OF MARK A. MCFARLAND
IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

I, Mark A. McFarland, hereby declare under penalty of perjury:

1. I am the Chief Executive Officer of GenOn Energy, Inc. (“GenOn”) and have held that position since I joined, on April 7, 2017. GenOn, a wholesale power generation corporation with 15,394 megawatts in generating capacity, is a Delaware corporation with its principal place of business in Princeton, New Jersey, and is one of the above-captioned debtors

¹ The Debtors in these chapter 11 cases, along with the last four digits of each debtor’s federal tax identification number, are: GenOn Energy, Inc. (5566); GenOn Americas Generation, LLC (0520); GenOn Americas Procurement, Inc. (8980); GenOn Asset Management, LLC (1966); GenOn Capital Inc. (0053); GenOn Energy Holdings, Inc. (8156); GenOn Energy Management, LLC (1163); GenOn Energy Services, LLC (8220); GenOn Fund 2001 LLC (0936); GenOn Mid-Atlantic Development, LLC (9458); GenOn Power Operating Services MidWest, Inc. (3718); GenOn Special Procurement, Inc. (8316); Hudson Valley Gas Corporation (3279); Mirant Asia-Pacific Ventures, LLC (1770); Mirant Intellectual Asset Management and Marketing, LLC (3248); Mirant International Investments, Inc. (1577); Mirant New York Services, LLC (N/A); Mirant Power Purchase, LLC (8747); Mirant Wrightsville Investments, Inc. (5073); Mirant Wrightsville Management, Inc. (5102); MNA Finance Corp. (8481); NRG Americas, Inc. (2323); NRG Bowline LLC (9347); NRG California North LLC (9965); NRG California South GP LLC (6730); NRG California South LP (7014); NRG Canal LLC (5569); NRG Delta LLC (1669); NRG Florida GP, LLC (6639); NRG Florida LP (1711); NRG Lovett Development I LLC (6327); NRG Lovett LLC (9345); NRG New York LLC (0144); NRG North America LLC (4609); NRG Northeast Generation, Inc. (9817); NRG Northeast Holdings, Inc. (9148); NRG Potrero LLC (1671); NRG Power Generation Assets LLC (6390); NRG Power Generation LLC (6207); NRG Power Midwest GP LLC (6833); NRG Power Midwest LP (1498); NRG Sabine (Delaware), Inc. (7701); NRG Sabine (Texas), Inc. (5452); NRG San Gabriel Power Generation LLC (0370); NRG Tank Farm LLC (5302); NRG Wholesale Generation GP LLC (6495); NRG Wholesale Generation LP (3947); NRG Willow Pass LLC (1987); Orion Power New York GP, Inc. (4975); Orion Power New York LP, LLC (4976); Orion Power New York, L.P. (9521); RRI Energy Broadband, Inc. (5569); RRI Energy Channelview (Delaware) LLC (9717); RRI Energy Channelview (Texas) LLC (5622); RRI Energy Channelview LP (5623); RRI Energy Communications, Inc. (6444); RRI Energy Services Channelview LLC (5620); RRI Energy Services Desert Basin, LLC (5991); RRI Energy Services, LLC (3055); RRI Energy Solutions East, LLC (1978); RRI Energy Trading Exchange, Inc. (2320); and RRI Energy Ventures, Inc. (7091). The Debtors’ service address is: 804 Carnegie Center, Princeton, New Jersey 08540.

and debtors in possession (collectively, the “Debtors”). The Debtors are GenOn and some (but not all) of its direct and indirect subsidiaries.

2. By way of introduction, I am an executive with nearly a quarter century of experience in the energy sector. Before joining GenOn, I held the same title at Luminant Energy Company LLC (“Luminant”) (an Energy Future Holdings, Inc. (“Energy Future Holdings”) subsidiary) from 2013 to 2016, having been Luminant’s Chief Commercial Officer since 2008. As Luminant’s Chief Executive Officer, I was responsible, as I am now at GenOn, for managing and optimizing a power plant fleet with almost 17,000 megawatts in generating capacity. Also in that role, I acquired the experience that has prepared me to navigate GenOn through these chapter 11 cases today. I led more than 4,000 employees during Energy Future Holdings’ restructuring and, as part of those chapter 11 cases, I worked with GenOn’s advisors to prepare various first day and other motions so that Luminant could continue operating during bankruptcy and also provided expert testimony.

3. In April 2017, I joined GenOn knowing the challenges ahead of me. My immediate duties have included devising GenOn’s business plan to tackle current market challenges, transitioning to an independent enterprise, improving GenOn’s cost structure, and preparing GenOn for these chapter 11 filings.

4. Concurrent with the filing of this Declaration today (the “Petition Date”), the Debtors have filed their voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101–1532 (the “Bankruptcy Code”), with the United States Bankruptcy Court for the Southern District of Texas (the “Court”). To minimize the adverse effects on their businesses, the Debtors have filed motions and pleadings seeking various forms of “first day” relief (collectively, the “First Day Motions”). The First Day Motions seek relief to

allow the Debtors to meet necessary obligations and fulfill their duties as debtors in possession. I am familiar with the contents of each of the First Day Motions and believe that the requested relief: (i) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of productivity and value, (ii) constitutes a critical element in achieving a successful reorganization, and (iii) best serves the Debtors' estates and their creditors' interests.

5. I am generally familiar with the Debtors' day-to-day operations, business and financial affairs, and books and records. Except as otherwise indicated herein, all facts set forth in this Declaration are based upon my personal knowledge of the Debtors' employees, operations, and finances; information learned from my review of relevant documents; information supplied to me by other members of the Debtors' management, their advisors, or their shared service providers; or my opinion based on my experience, knowledge, and information concerning the Debtors' operations and financial condition. I am authorized to submit this Declaration on behalf of the Debtors, and, if called upon to testify, I could and would testify competently to the facts set forth herein.

6. This declaration covers four areas. Section I provides an overview of these chapter 11 cases and the agreed path forward. Section II introduces the Debtors. I recap GenOn's history before describing power markets and the Debtors' business and capital structure. Section III explains how decreased demand and increased competition coupled with the fall in natural gas prices has negatively impacted GenOn's enterprise value and rendered its debt load incommensurate with its current profitability capabilities. It then explains the path forward. Section IV and **Exhibit A** discuss the need for the First Day Motions.

I. Introduction

7. The Debtors commenced these chapter 11 cases with overwhelming support from their key stakeholders. The Restructuring Support Agreement (which is attached as **Exhibit B**) features the support of its current equity holder, NRG Energy, Inc. (“**NRG**”), and more than 90% in principal amount of the Debtors’ funded debt. Most significantly, the plan of reorganization contemplated by the Restructuring Support Agreement pays non-funded debt general unsecured creditors in full. Through the restructuring, the Debtors will significantly delever their balance sheet by more than \$1 billion and implement an orderly transition to a standalone power generation company better situated for success in the current market environment.

8. On December 14, 2012, NRG paid almost \$6 billion to acquire GenOn. Less than five years later, the value of GenOn has dropped significantly and it has been unable to generate profits sufficient to service its legacy capital structure and, in particular, five unsecured senior note issuances totaling approximately \$2,525 million in unpaid principal as of the date hereof. With just \$885 million in cash on hand as of March 31, 2017—and \$387 million of this cash “trapped” in two operating subsidiaries with strict lease restrictive payment covenants—GenOn faces an impending maturity of \$691 million of its senior unsecured notes on June 15, 2017. Further, \$1,064 million of additional senior unsecured notes will mature over the next four years.

9. A challenging market environment exacerbated the Debtors’ financial distress:

- Over the past five years, demand for power in the United States has been generally flat with no expectation for growth.
- In the same period, total generating capacity has grown as new generating capacity has surpassed power plant retirements. The Debtors have been hurt by the glut of new power sources with a lower marginal generating price than the Debtors’ older, less efficient fleet.
- Prices for natural gas (which has been challenging coal as the leading fuel source for power generation in the United States) have dropped and are now magnitudes below what NRG, GenOn, and the market expected in 2012. Natural gas prices from the merger

through today have dropped significantly and remained at their lowest levels in the past 20 years.

- This combination has caused energy and capacity prices to fall. So has the Debtors' profitability as a result.

10. Facing these challenges and having spent the past year analyzing their options to address the near- and long-term maturities on their senior unsecured notes, the Debtors have concluded that commencing these chapter 11 cases now is their best path forward to implement a restructuring that will withstand current market challenges, maximize the value of their assets, and address liquidity needs. Notwithstanding these market pressures, the Debtors were able to build consensus for the global restructuring contemplated by the Restructuring Support Agreement, which is supported by their current equity holder, NRG, and more than 90% of the holders of the GenOn Senior Unsecured Notes (defined below) and more than 90% of the holders of the GAG Senior Unsecured Notes (defined below). Through the Restructuring Support Agreement, the Debtors will, among other steps:

- Equitize approximately \$2 billion in debt at a time when GenOn lacks sufficient cash and faces limited options to raise additional funds short of issuing new debt or selling power plants through a sweeping asset divestiture plan;
- Refinance another \$695 million in legacy debt;
- Transition to a standalone enterprise with a leaner capital and operating structure that is better suited for today's market challenges; and
- Implement a global settlement of potential claims and causes of action against NRG. This settlement provides substantial cash and non-cash consideration, including a \$261.3 million cash contribution, a pension contribution worth approximately \$13.2 million, a \$27 million credit against amounts GenOn owes under the Shared Services Agreement, discounted services under the Shared Services Agreement, and certain tax-related concessions.

11. Consistent with the Restructuring Support Agreement's milestones (and considering certain adverse tax consequences that may occur from delay), the Debtors expect to move through chapter 11 expeditiously with a target emergence before year's end. The Debtors

will emerge ready to tackle 2018's market challenges and a timely chapter 11 process will create limited business interruptions.

II. Background

12. As context for the Debtors' current financial distress, this section covers three topics: the Debtors' corporate structure and history, business and operations, and capital structure.

A. The Debtors' Corporate Structure and History

13. GenOn is the product of two mergers since 2010. First, on December 3, 2010, two wholesale power generation companies—RRI Energy, Inc. ("RRI") and Mirant Corporation ("Mirant")—completed a merger with Mirant becoming RRI's wholly-owned subsidiary. Following the merger, RRI took its current name: GenOn.

14. Second, on December 14, 2012, NRG (through a wholly-owned subsidiary) and GenOn completed a merger with GenOn continuing as the surviving company. All in, NRG paid approximately \$5,989 million (through \$1,694 million in cash, \$1,060 million in equity, and \$3,235 million in assumed debt) to purchase GenOn. NRG's desire to expand its presence in the PJM Interconnection ("PJM") power market (the largest in the United States, serving the Mid-Atlantic region) drove this merger. In the merger, NRG never guaranteed GenOn's debt, leaving GenOn's creditors without recourse against NRG's assets in the event of GenOn's default.

15. As the organization stands today, GenOn conducts its wholesale power generation activities through numerous direct and indirect subsidiaries—61 of whom are also Debtors in these chapter 11 cases. Two of the Debtors' non-debtor subsidiaries—GenOn Mid-Atlantic, LLC ("GenMA") and NRG REMA, LLC ("REMA")—also have significant operations and are parties to lease agreements that limit their ability to upstream their cash. A detailed corporate organizational chart is attached hereto as **Exhibit C**.

B. Overview of the Debtors' Business and Management

1. Revenue Generation in the Energy Sector

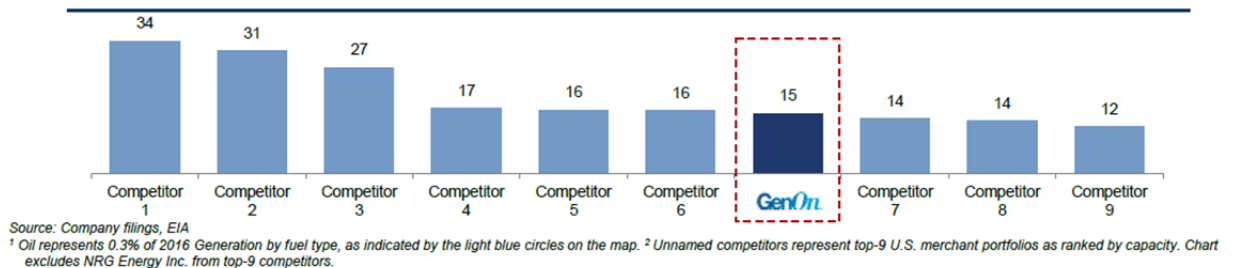
16. The Debtors generate revenue in three principal ways:

- **Capacity Revenue.** The Debtors commit to making power production capacity available in the future, sometimes multiple years in advance. Capacity payments compose more than half of the Debtors' gross margin.
- **Energy Revenue.** The Debtors sell power that has been produced.
- **Ancillary Services Revenue.** The Debtors are paid to provide services to maintain and enhance the power grid's stability. These payments compose a limited amount of the Debtors' gross margin.

17. Power prices historically fluctuate, with large variances observed year-to-year and month-to-month. To manage the short- and medium-term fluctuations in price and the attending revenue risks, power providers hedge. The Debtors, for example, have agreed to sell power in the future at an agreed price or sell natural gas, which has tracked the price of power.

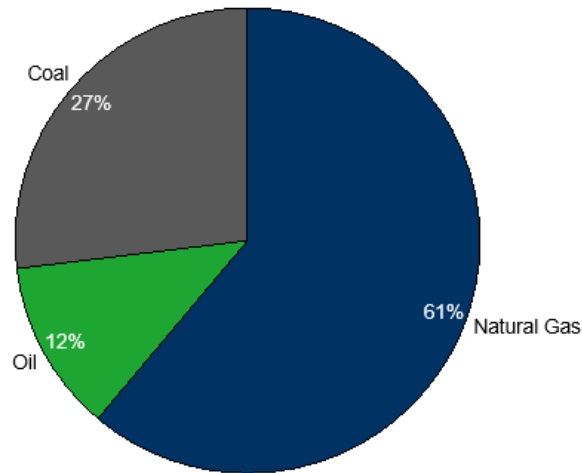
2. The Debtors' Generation Fleet and Operations

18. With an operating capacity of 15,394 megawatts, the Debtors are one of the 10 largest wholesale power generation companies in the United States.



19. The Debtors operate 32 power plants in eight states with the following characteristics:

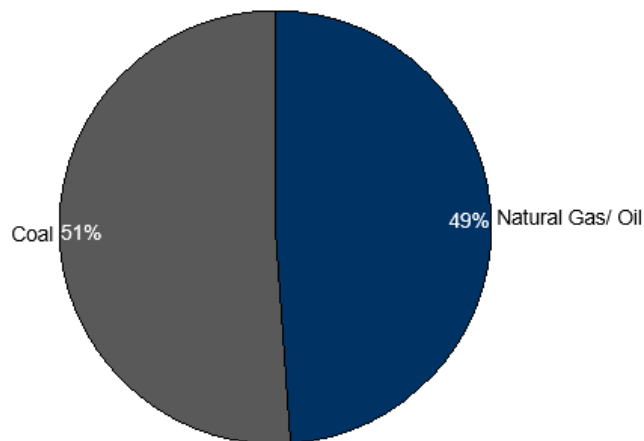
- Production Capacity by Fuel Source Used.** The Debtors' 32 power plants operate across various fuel and technology types. Measured by total installed capacity, 61% of the Debtors' generation portfolio is fueled by natural gas, 27% by coal, and 12% by oil. The efficiency of these plants ranges from plants that run frequently throughout the year to plants that have a higher cost to operate and are used to meet peak power needs.

Capacity¹

Capacity (MW)
100% = 15,394

¹ Time period: Year end 2016
Source: May 23, 2017 GenOn 8K Filing

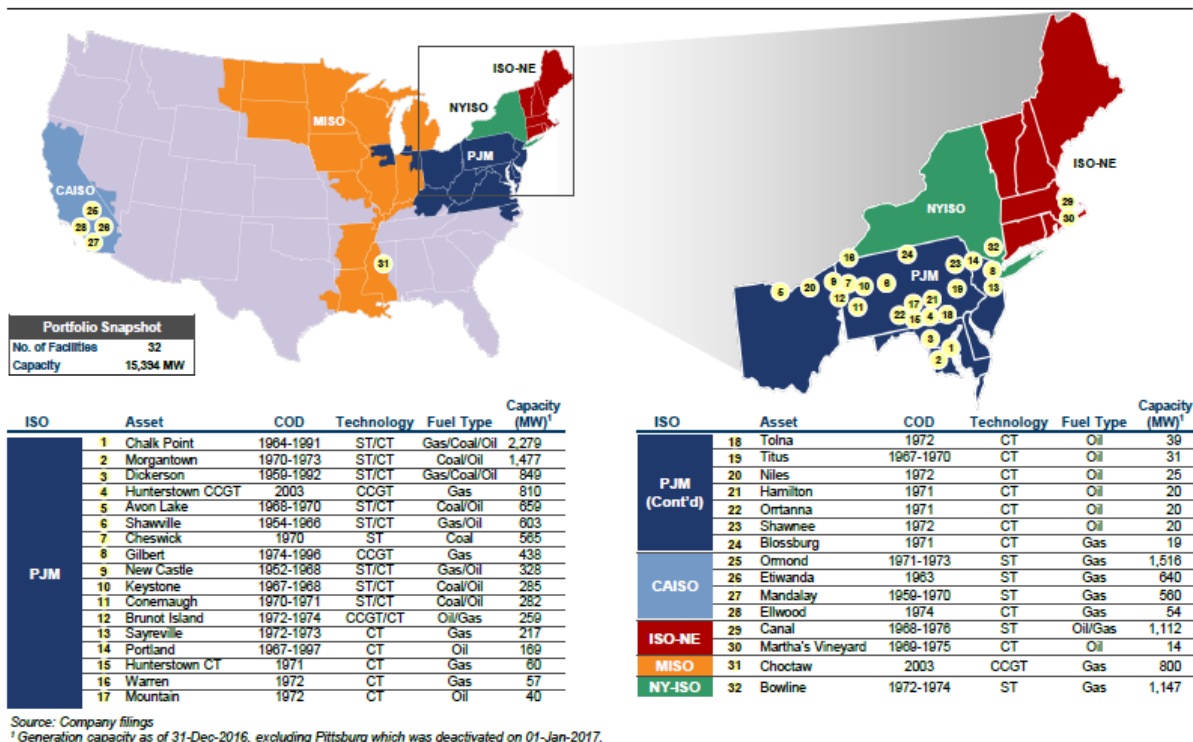
- Output.** The Debtors generated about 26 terawatt-hours of power in 2016, or, according to statistics from the U.S. Energy Information Administration, enough energy to serve the electricity demands of 2.4 million homes each year. As the chart below shows, most of the production comes from the Debtor's coal units.

Production (MWh)¹

Production (TWh)
100% = 26.0

¹ Time period: Year end 2016
Source: May 23, 2017 GenOn 8K Filing

- Location.** The Debtors' portfolio is concentrated in the PJM and the California ISO ("CAISO") power markets. PJM is the largest power market in the United States and the Debtors have the sixth largest generation portfolio there. Three-fourths of the Debtors' power plants and 62% of their total generating capacity are in this market. CAISO services 80% of the power grid in California. Four of the Debtors' power plants constituting 18% of the Debtors' generation capacity serve CAISO. The following graph provides geographical context of the Debtors' power plant fleet.



3. GenOn Operations and Shared Services Agreement

20. Following NRG's acquisition of GenOn, on December 20, 2012, GenOn executed a services agreement (the "Shared Services Agreement") with NRG to provide for the overall management of GenOn's fleet. As a result, GenOn operated without an independent management team until the time of my hiring. Under the Shared Services Agreement, NRG provides GenOn and its subsidiaries with eight categories of services. Those categories are: (i) executive and administrative, (ii) accounting, (iii) tax, (iv) information systems, (v) treasury and planning, (vi) operations and asset management, (vii) risk and commercial operations, and (viii) legal.

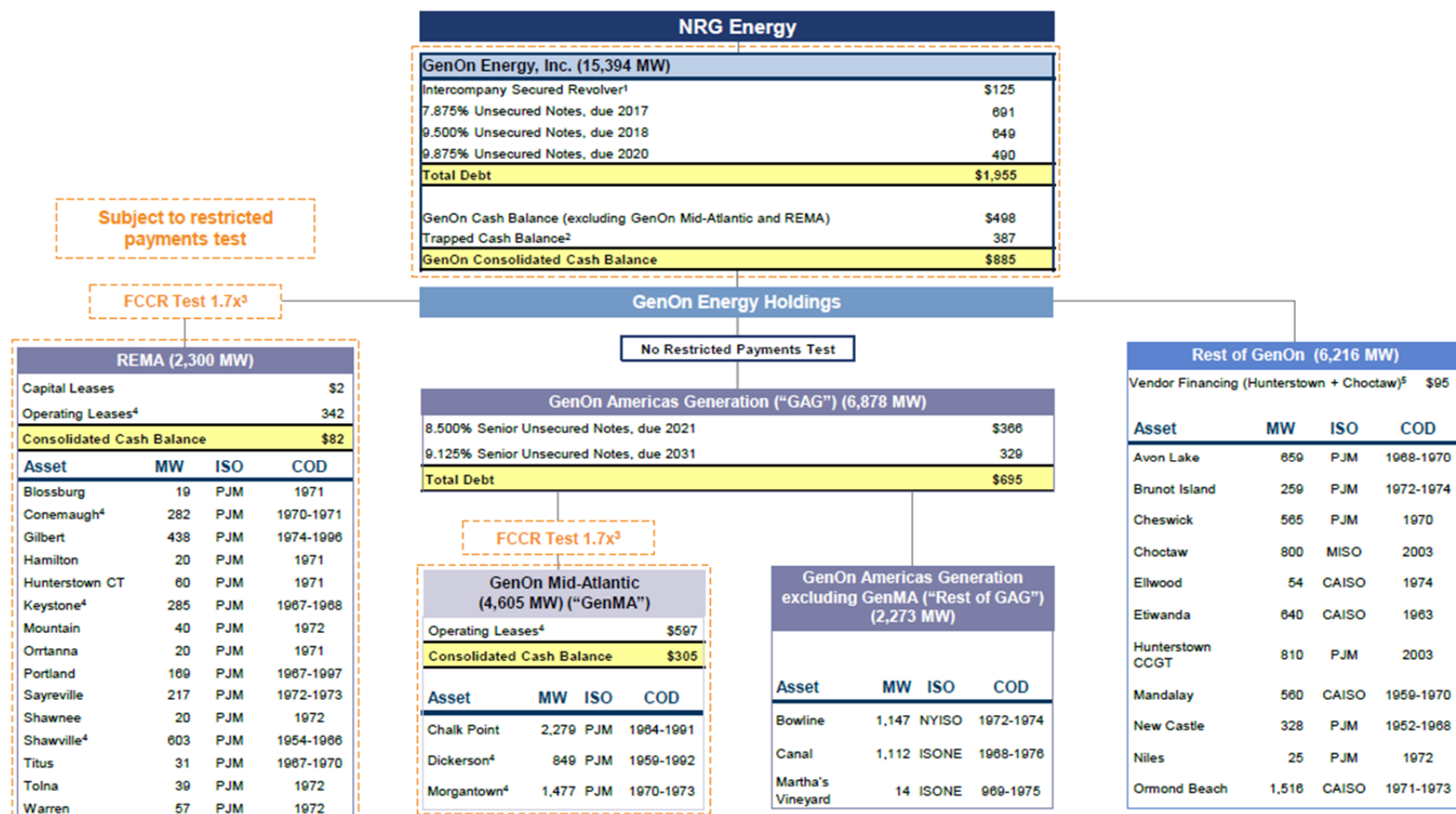
21. In exchange for these shared services, GenOn paid NRG an annual \$192.6 million fee (the “Shared Services Fee”). GenOn (and not its subsidiaries) pays NRG, and subsequently GenOn has allocated the Shared Services Fee among its direct and indirect subsidiaries based on their proportionate, projected operations expenses.

C. The Debtors’ Capital Structure

22. As of the Petition Date, the Debtors have approximately \$2.5 billion in total funded debt. GenOn has approximately \$1.83 billion in principal outstanding on three series of notes issued under a senior indenture dated December 22, 2004 (the “GenOn Senior Unsecured Notes”). Debtor GenOn Americas Generation, LLC (“GAG”) has approximately \$695 million in principal outstanding on two series of notes issued under a senior indenture dated May 1, 2001 (the “GAG Senior Unsecured Notes”).

23. The table on the next page shows the location of the Debtors’ debt within GenOn’s corporate structure, including the restrictions preventing GenMA and REMA from upstreaming cash to GenOn.

Summary of GenOn's Organizational Structure as of March 31, 2017



Note: US\$ in millions. Cash and Debt amounts as of 31-Mar-2017. Total debt of GenOn and GenOn Americas Generation excludes premiums of \$69mm and \$48mm, respectively. ¹ As of 31-Mar-2017, \$161mm of letters of credit and \$125mm of cash borrowings were outstanding under the Intercompany Secured Revolver. ² Trapped cash represents \$305mm and \$82mm of cash held by GenOn Mid-Atlantic and REMA, respectively (as of 31-Mar-2017, GenMA and REMA were not in compliance with the requirements under their respective leases, and therefore have not been able to make distributions of cash and certain other restricted payments to GenOn Energy). ³ The Company did not pass the FCCR test as of 31-Mar-2017. ⁴ Represents GenOn's leased assets. Present value of REMA and GenMA leases based on GenOn's estimated discount rate of 9.4% and 10.0%, respectively. ⁵ Represents Long Term Service Agreements, which are accounted for as a debt financing liability in accordance with GAAP.

24. Beyond this debt, on December 14, 2012, GenOn and Debtor NRG Americas, Inc. executed a secured intercompany revolving credit agreement with NRG (the “Intercompany Secured Revolver”) that provides for a \$500 million revolving credit facility. The facility is available for revolving loans and letters of credit. Certain of GenOn’s subsidiaries are also guarantors under the Intercompany Secured Revolver. As of the Petition date, approximately \$125 million in cash borrowings and approximately \$143 million of letters of credit were outstanding under the Intercompany Secured Revolver.

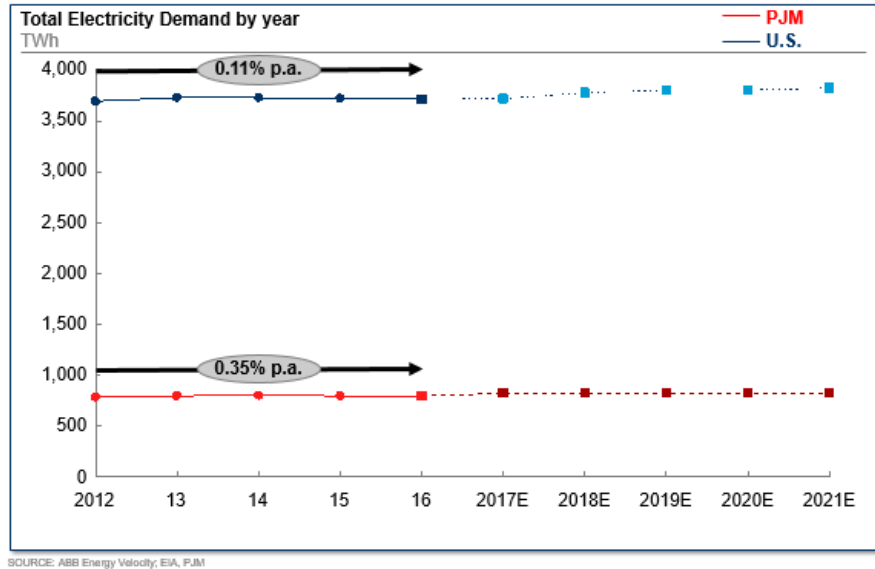
III. Circumstances Leading to the Commencement of these Chapter 11 Cases

25. This section recounts how the Debtors find themselves in bankruptcy and the steps taken to correct the Debtors’ capital structure given today’s market challenges.

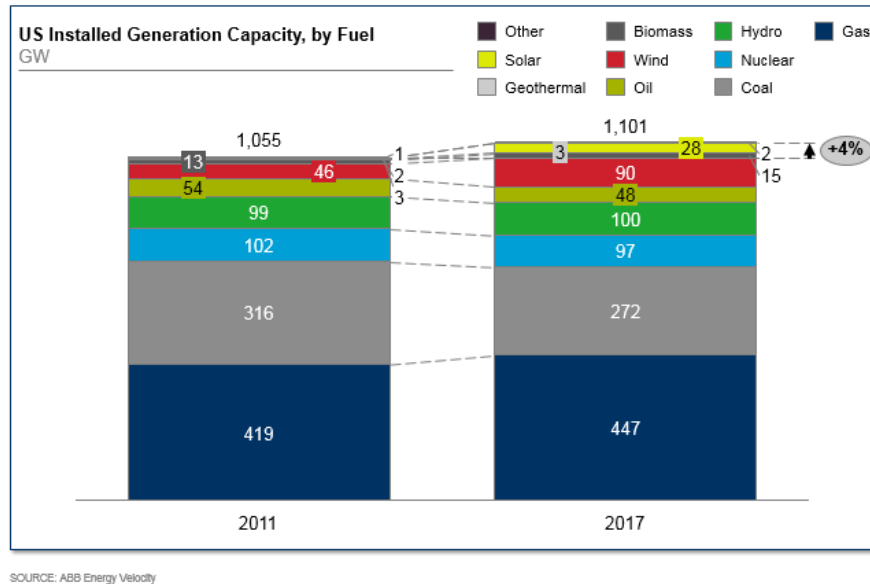
A. Challenges Facing the Debtors’ Business

26. The financial challenges confronting the Debtors mirror the broader downturn in the energy sector. In selling capacity and energy, the Debtors’ financial fortunes are determined by prevailing market prices. The Debtors participate in deregulated wholesale power markets where the price for energy and capacity are determined by supply and demand—unlike a regulated utility or power generator that receives revenues and returns based on a state public utility commission’s determined rate. Market prices, however, have been declining due to the confluence of three factors: (i) flat demand, (ii) new supply, and (iii) falling natural gas prices.

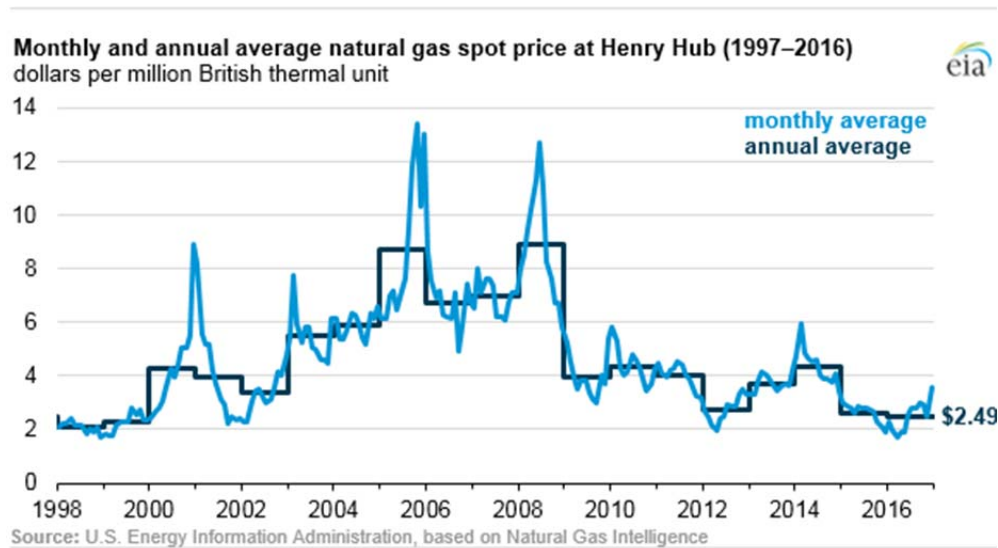
27. First, the demand for power in the United States generally has been flat, and the PJM power market fares not much better. Compared to nationwide expected growth in demand of 0.11%, expected growth in demand in PJM is just 0.35%.



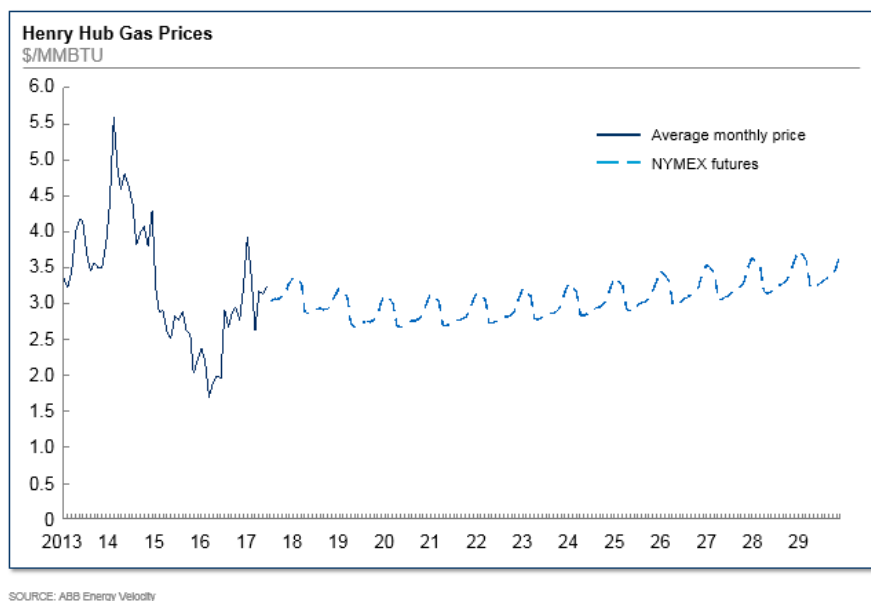
28. Second, although demand has been flat, the power generating supply in the United States has grown 4% since 2011.



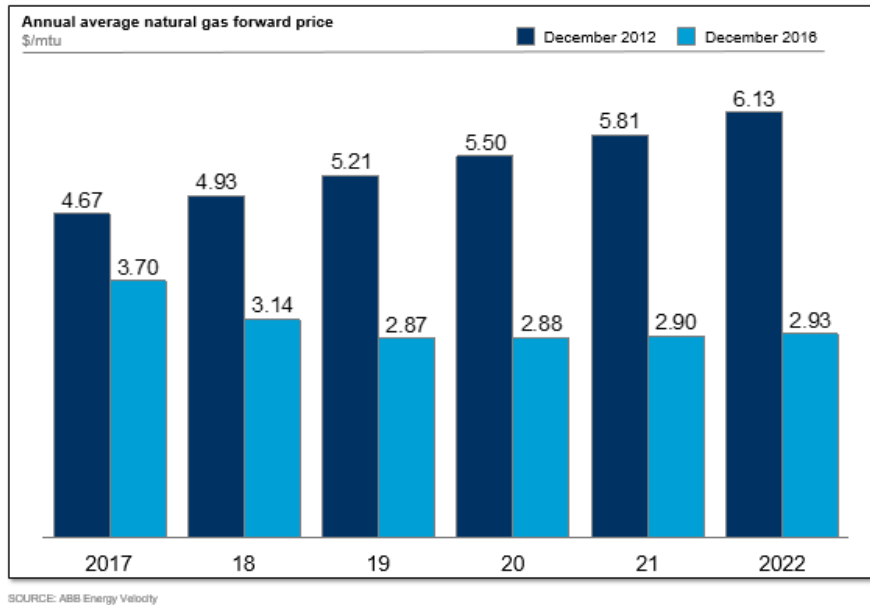
29. Third, natural gas prices have been declining for almost a decade, and, in 2016, the average price of natural gas reached its lowest levels since 1999, as shown by the following graph from a January 13, 2017 U.S. Energy Information Administration article titled, “Natural gas prices in 2016 were the lowest in nearly 20 years.”



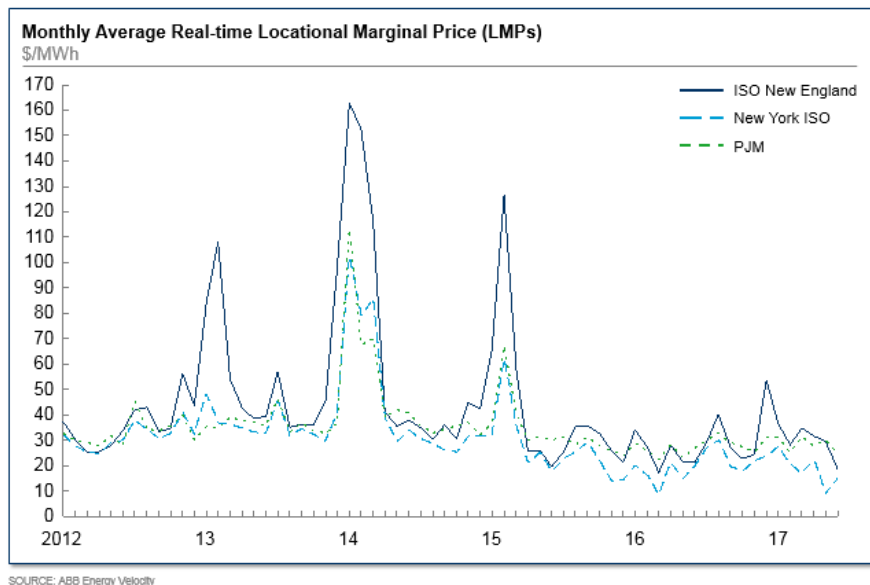
30. Future prospects are no better. Natural gas futures prices continue to fall before beginning a slow recovery in 2020. Yet natural gas prices through 2030 are not expected to reach their 2014 levels, let alone the relative highs of 2005 and 2008.



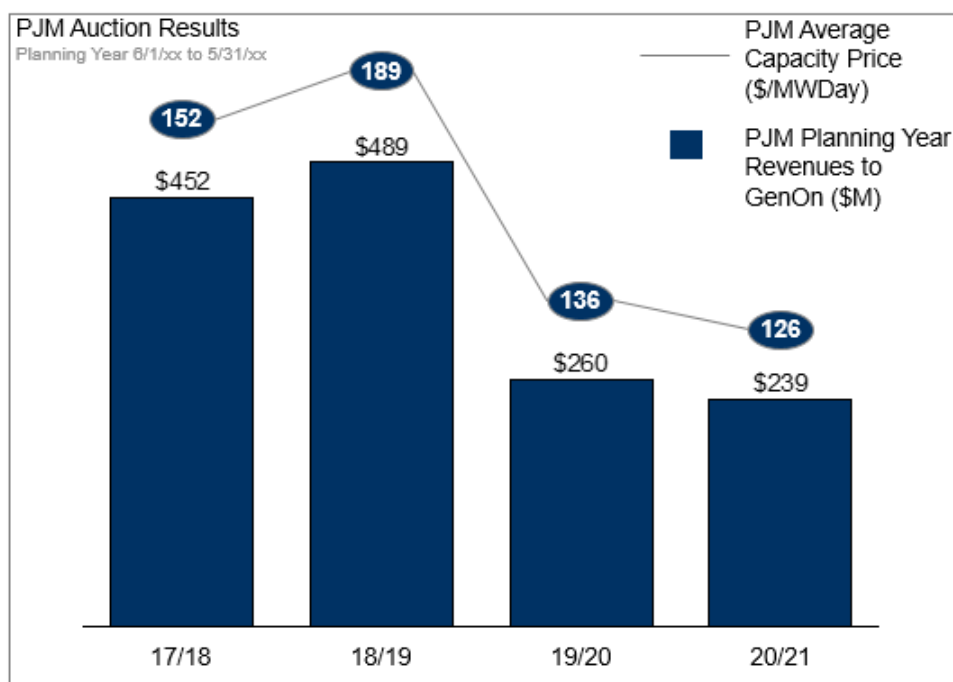
31. Natural gas price projections for 2017 to 2022 also are far more pessimistic today than they were in 2012, at the time of NRG's acquisition of GenOn.



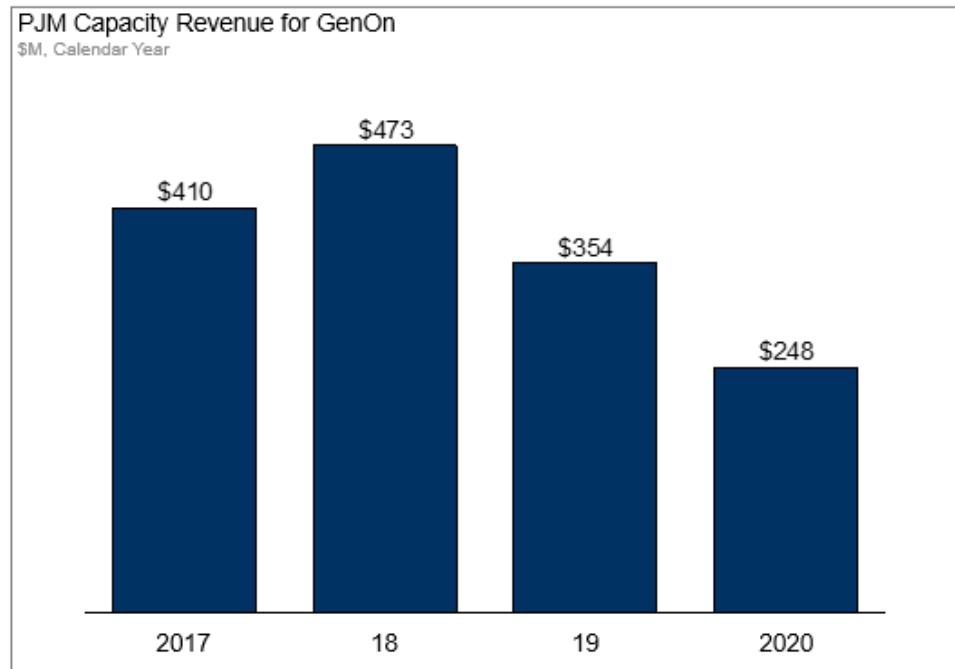
32. In sum, demand has remained flat while new power plants have become operational and natural gas prices have declined. As a result, there is now a surplus of generating capacity in the market, and modern, often natural gas-fired power plants are generating power at a lower marginal price than GenOn's vintage, less efficient fleet. The combination of these three factors also has driven wholesale power prices down. The price of electricity in the PJM market, for example, "cleared" at more than \$100 per megawatt hour in early 2014. Now that price hovers around \$30 per megawatt hour, as shown by the graph on the next page.



33. PJM capacity revenues for GenOn have declined steadily as a result, as illustrated in the auction results and associated revenues shown in the next two graphs (aside from a brief spike in the 2018 to 2019 planning year).

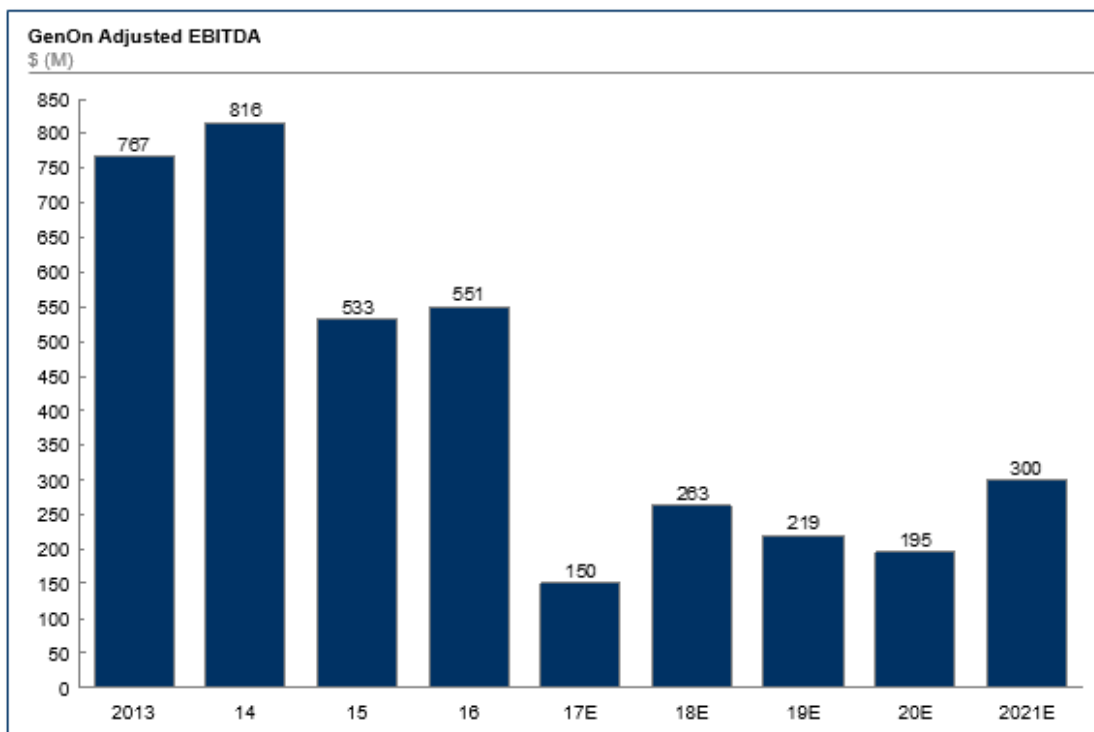


Source: May 23, 2017 NRG Energy Document "2020/2021 PJM Capacity Auction Results"



Source: May 23, 2017 NRG Energy Document "2020/2021 PJM Capacity Auction Results"

34. All told, GenOn's adjusted EBITDA has fallen since the merger and is projected to fall further.



¹ PJM market auctions take place three years prior to the commitment year (i.e., 2006 prices reflect a 2003 auction).
SOURCE: Company filings and estimates

35. Unable to generate EBITDA at historical levels and facing debt maturities in each of 2017, 2018, and 2020, GenOn's debt load is no longer commensurate with its profitability. GenOn entered 2016 with \$1,034 million in cash on hand (and \$571 million of that amount was located at GenMA and REMA, and therefore restricted). Unable to redeem the 2017 notes without more cash, GenOn bolstered its restructuring efforts in 2016.

B. Restructuring Efforts Intensify

36. Facing this challenging market environment and debt load, and with limited cash, in 2016, the Debtors began expanding their consideration and analysis of strategic alternatives to address their debt obligations, including a comprehensive restructuring. Among other steps:

- In April 2016, the Debtors retained Rothschild, Inc. as their financial advisor.
- In June 2016, the Debtors retained Kirkland & Ellis, LLP ("Kirkland & Ellis") as their legal advisor. Kirkland & Ellis in turn retained McKinsey & Company ("McKinsey") and AlixPartners LLP ("Alix") as part of a broader evaluation of the Debtors' cost structure and potential legal claims held by the Debtors and their creditors.
- In March 2017, the Debtors retained McKinsey as a restructuring advisor.
- In April 2017, GenOn hired me to provide independent management.
- In May 2017, GAG appointed an independent manager.

37. With their advisors' help, the Debtors have been pursuing various simultaneous paths to maximize their value and address their debt load, whether within or outside chapter 11. I will discuss four of those paths in turn: (i) operational improvements, (ii) claims investigation and preservation, (iii) secured debt financing, and (iv) negotiations with NRG and the Noteholder Group (defined below).

1. Operational Improvements

38. Since 2016, the Debtors have been evaluating cost-cutting opportunities and preparing for a consensual separation from NRG. This has been one of my priorities. A focus

has been the Shared Services Agreement, which, at \$192.6 million per year, represents one of GenOn's largest expense items.

39. The Debtors have been working with McKinsey to evaluate the Shared Services Fee and to craft an organizational design for a standalone GenOn. Beginning in October 2016, McKinsey analyzed how much it would cost GenOn to replicate NRG's services on an independent basis. And McKinsey prepared a "cleansheet analysis," crafting an organizational design and cost structure for GenOn. When I joined GenOn, I began working with McKinsey to expand their analysis. We prepared a plan for transitioning GenOn to a lean management and operations structure that leverages outsourcing. GenOn has aligned this transition plan with NRG's obligation under the Restructuring Support Agreement to provide discounted services at an annual rate of \$84 million during these chapter 11 cases and, after the Effective Date, free services for two months and, at GenOn's option, up to two additional months at the annual rate of \$84 million.

2. Claims Investigation and Preservation

40. In March 2016, an ad hoc group of holders of GenOn Unsecured Senior Notes and GAG Unsecured Senior Notes (the "Noteholder Group") began a conversation with the Debtors regarding potential fraudulent transfer, fiduciary duty, and other claims the Debtors may hold against NRG and current and former GenOn directors and officers, among others. The Debtors, with assistance from Kirkland & Ellis, Alix, and McKinsey, began identifying and evaluating potential claims. This investigation will continue through these chapter 11 cases.

41. From September 2016 through the present, the Debtors' advisors:

- identified and analyzed potential claims, including around the Shared Services Agreement, certain sales of GenOn power plants to NRG's affiliate and thirdparties, and certain development projects with NRG;
- conferred with the Noteholder Group's advisors about these potential claims;

- requested from NRG, received, and reviewed thousands of documents; and
- interviewed numerous NRG and GenOn representatives in addition to calls and meetings with NRG and GenOn representatives.

42. While the claims investigation was pending, from December 9 to 12, 2016, NRG, GenOn, certain current and former GenOn directors and officers, and the Noteholder Group executed a Tolling Agreement to preserve potential claims from expiring. In addition, on December 13, 2016, the Noteholder Group filed a lawsuit against NRG and GenOn in Delaware state court (the “Noteholder Litigation”). On April 30, 2017, the Noteholder Group filed an Amended Complaint adding as defendants NRG Yield, Inc. (“NRG Yield”) (a NRG subsidiary) and eight current and former GenOn directors and officers (the “Individual Defendants”), which did not include GenOn’s newly appointed independent directors.

43. In the Amended Complaint, the Noteholder Group alleged, among other things, that: (i) NRG has been overcharging GenOn under the Shared Services Agreement since its execution; and (ii) GenOn did not receive reasonably equivalent value from NRG Yield for GenOn’s July 22, 2013 sale of the Marsh Landing generating station (a newly developed power plant). The Noteholder Group further alleged that (iii) the Individual Defendants breached their duties for allowing GenOn’s purported overpayments under the Shared Services Agreement and for allowing NRG to pursue new business opportunities at GenOn’s Canal and Mandalay power plant sites; and (iv) NRG aided and abetted these breaches. No substantive developments have occurred in the Noteholder Litigation.

3. Secured Debt Financing

44. In evaluating the Debtors’ options to redeem GenOn’s notes due June 15, 2017, GenOn evaluated various options including issuing new debt secured by GenOn’s assets. Under

the GenOn Unsecured Senior Notes, as of May 4, 2017, GenOn was entitled to issue up to \$553 million in secured debt based on a secured debt capacity formula in the indentures.

45. On May 4, 2017, GenOn announced a new debt offering. Four days later, on May 8, 2017, GenOn (through a bankruptcy remote special purpose LLC) closed the offering and \$550 million of 10.500% senior secured first lien notes due June 1, 2022 (the “Secured Debt Notes”) were funded into an escrow account. The Secured Debt Notes require 10.500% semi-annual coupon payments due on June 1 and December 1.

46. In issuing the Secured Debt Notes, GenOn retained the option until June 14, 2017 either to release the funds or redeem the Secured Debt Notes at 104%—a \$22 million (4% times \$550 million) break-up fee. Having weighed issuing secured debt against the terms of the Restructuring Support Agreement (as I discuss below), on June 12, 2017, the GenOn Board decided to cause the redemption of the Secured Debt Notes. Had the funds been released instead, GenOn would have used the \$550 million plus \$141 in cash on hand to redeem the 2017 notes.

4. NRG and Noteholder Group Negotiations

47. Throughout the restructuring process, the Debtors have engaged in good faith discussions and negotiations with NRG, the Noteholder Group, and other GenOn and GAG noteholders to generate consensus and restructure their debt obligations on the best possible terms. On May 15, 2017, the Debtors executed confidentiality agreements with members of the Noteholder Group to negotiate a global settlement. On May 18, 2017, following three days of in-person negotiations, the group reached an agreement in principal on a global deal.

C. Restructuring Support Agreement

48. On May 22, 2017, GenOn executed a Consent Agreement with NRG, certain holders of approximately 60.6% in principal amount of GenOn Unsecured Senior Notes, and

certain holders of more than two-thirds in principal amount of GAG Unsecured Senior Notes (together with those certain holders of the GenOn Unsecured Senior Notes, the “Consenting Holders”). More holders of GenOn Unsecured Senior Notes and the GAG Unsecured Senior Notes executed the Consent Agreement and existing holders expanded their holdings, and now the Consenting Holders represent greater than 90% in aggregate principal amount of the GenOn Unsecured Senior Notes and greater than 90% in aggregate principal amount of the GAG Unsecured Senior Notes.

49. On June 12, 2017, GenOn, NRG, and the Consenting Holders reached an agreement on the terms of a Restructuring Support Agreement (attached as **Exhibit B**). Under the Agreement, the Debtors will emerge as a standalone enterprise owned entirely by holders of the GenOn Unsecured Senior Notes, and settling potential claims the Debtors and Noteholder Group held against NRG, among others. The Restructuring Support Agreement includes the following terms:

- **Debt for Equity Exchange.** The holders of the GenOn Unsecured Senior Notes will receive 100% of the equity in a reorganized GenOn from NRG, a share of a cash pool dedicated to the GenOn Unsecured Senior Notes, and the right to participate in a subscription auction for \$900 million in exit financing. Certain of these holders also have agreed to backstop the new offering and have received a commitment fee equal to 5% of the aggregate amount backstopped.
- **Holders of the GAG Unsecured Senior Notes.** The holders of the GAG Unsecured Senior Notes will receive cash in the amount of 92% of par plus their accrued interest through the Petition Date, and also a share of a cash pool dedicated to the GAG Unsecured Senior Notes.
- **General Unsecured Claims.** The Debtors will pay all general unsecured claims.
- **Cash Settlement.** In exchange for a release from the claims in the Noteholder Litigation and certain other consideration described in the Restructuring Support Agreement, NRG agreed to make a \$243 million payment if the Restructuring Support Agreement was executed by holders of greater than 50.1% of the aggregate principal amount of the GenOn Unsecured Senior Notes and the GAG Unsecured Senior Notes. That amount increased to \$261.3 million because more than two-thirds of the aggregate principal

amount of the GenOn Unsecured Senior Notes and the GAG Unsecured Senior Notes executed the Restructuring Support Agreement.

- **Shared Services Agreement.** Beginning on the Petition Date and until the Effective Date, NRG has agreed to continue providing services under the Shared Services Agreement and at a reduced fee. NRG will reduce the Shared Services Fee to an annual rate of \$84 million—or a \$108.6 million annualized reduction from the original \$192.6 million annual fee. After the Effective Date, NRG has agreed to provide GenOn with a \$27 million credit towards the Shared Services Fee, and to provide GenOn with free services for two months following the Effective Date and, at GenOn’s option, up to two additional months at the annual rate of \$84 million.
- **Pensions.** NRG has agreed to indemnify GenOn for certain historic pension obligations relating to underfunded liability estimated at approximately \$120 million, including satisfaction of approximately \$13 million in annual contribution obligations for 2017.
- **Tax Matters.** NRG has agreed to delay claiming a worthless stock deduction over GenOn’s stock until the year when GenOn emerges from bankruptcy, and there will be further discussions regarding the ultimate resolution of tax matters. NRG also has agreed to certain tax-related indemnification and tax return preparation responsibilities.

50. In sum, GenOn and the Noteholder Group have received substantial cash and non-cash consideration. GenOn and the Noteholder Group are receiving a \$261.3 million cash contribution, a pension indemnification, a \$27 million credit against amounts GenOn owes under the Shared Services Agreement, and free and discounted services under the Shared Services Agreement. And these numbers do not include, for example, the benefits from NRG indemnifying GenOn for historic pension obligations and tax-related concessions. Nor do they include the benefit from avoiding a contentious, litigious, and an expensive bankruptcy that detracts from other value-maximizing initiatives.

51. It is my opinion that pursuing a comprehensive balance sheet restructuring through the Restructuring Support Agreement is the best option for the Debtors to maximize the value of the enterprise.

IV. **Relief Sought in the Debtors' First Day Motions**

52. Along with my declaration, the Debtors have filed the First Day Motions, seeking orders granting various forms of relief intended to stabilize the Debtors' business operations, facilitate the efficient administration of these chapter 11 cases, and expedite restructuring of the Debtors' balance sheet. The First Day Motions include:

- Debtors' Emergency Motion for Entry of an Order (I) Directing Joint Administration of Related Chapter 11 Cases and (II) Granting Related Relief;
- Debtors' Emergency Motion for Entry of an Order (I) Extending Time to File Schedules of Assets and Liabilities, Schedules of Current Income and Expenditures, Schedules of Executory Contracts and Unexpired Leases, Statements of Financial Affairs, and Rules 2015.3 Financial Reports and (II) Granting Related Relief;
- Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to File a Consolidated List of Creditors and a Consolidated List of the 50 Largest Unsecured Creditors, (II) Authorizing the Debtors to Redact Certain Personal Identification Information, and (III) Approving the Form and Manner of Notifying Creditors of the Commencement of These Chapter 11 Cases and Other Information;
- Application of Debtors for Order Appointing Epiq Bankruptcy Solutions, LLC as Claims, Noticing, Solicitation, and Administrative Agent;
- Debtors' Emergency Motion for Entry of Interim and Final Orders Authorizing the Debtors to (I) Continue to Operate Their Cash Management Systems, (II) Honor Certain Prepetition Obligations Related Thereto, (III) Maintain Existing Business Forms, (IV) Perform Intercompany Transactions, and (V) Granting Related Relief;
- Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing Continued Performance Under Intercompany Arrangements, (II) Authorizing the Debtors to Continue Ordinary Course Operations and Related Financing, and (III) Granting Related Relief;
- Debtors' Emergency Motion for Entry of an Order (I) Establishing a Record Date for Notice and Sell-Down Procedures for Trading In Certain Claims Against the Debtors' Estates and (II) Granting Related Relief;
- Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses, and (B) Continue Employee Benefits Programs, and (II) Granting Related Relief;

- Debtors' Emergency Motion for Entry of an Order (I) Approving the Debtors' Proposed Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Services, (III) Approving the Debtors' Proposed Procedures for Resolving Additional Assurance Requests, and (IV) Granting Related Relief;
- Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Debtors to (A) Continue Prepetition Hedging and Trading Practices, (B) Commence Postpetition Hedging and Trading Practices, (C) Grant Superpriority Claims and Authorize Posting of Postpetition Hedging Collateral, and (D) Pay Prepetition Hedging and Trading Obligations and (II) Modifying the Automatic Stay;
- Debtors' Emergency Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of Certain Lien Claimants and Section 503(b)(9) Claims, (II) Confirming Administrative Expense Priority of Outstanding Orders, and (III) Granting Related Relief;
- Debtors' Emergency Motion for Entry of an Order (I) Authorizing the Payment of Certain Prepetition and Postpetition Taxes and Fees and (II) Granting Related Relief;
- Debtors' Emergency Motion Seeking Entry of an Order Authorizing the Debtors to (I) Continue Insurance Coverage Entered Into Prepetition and Satisfy Prepetition Obligations Related Thereto, and (II) Renew, Supplement, or Purchase Insurance Policies, and (II) Granting Related Relief; and
- Debtors' Emergency Motion for Entry of an Order (I) Approving Continuation of the Surety Bond Program and (II) Granting Related Relief.

53. The First Day Motions seek authority to, among other things, honor employee-related wages and benefits obligations, pay prepetition accounts payable claims in the ordinary course of business, and ensure the continuation of the Debtors' cash management systems and other business operations without interruption. I believe that the relief requested in the First Day Motions is also necessary to allow the Debtors to successfully implement the Plan and promptly emerge from chapter 11.

54. Several of the First Day Motions request authority to pay certain prepetition claims. I understand that Federal Rule of Bankruptcy Procedure 6003 provides, in relevant part, that the Court shall not consider motions to pay prepetition claims during the first 20 days following the filing of a chapter 11 petition, "except to the extent relief is necessary to avoid

immediate an irreparable harm.” In light of this requirement, the Debtors have narrowly tailored their requests for immediate authority to pay certain prepetition claims in those circumstances where the failure to pay such claims would cause immediate and irreparable harm to the Debtors and their estates. Other relief will be deferred for consideration at a later hearing.

55. I am familiar with the content and substance of the First Day Motions. The facts stated in **Exhibit A** in support of each of the First Day Motions are true and correct to the best of my knowledge, information, and belief, and I believe that the relief sought in each of the First Day Motions is necessary to enable the Debtors to operate in chapter 11 with minimal disruption to their business operations and constitutes a critical element in successfully restructuring the Debtors’ businesses.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: June 14, 2017

/s/ Mark A. McFarland

Mark A. McFarland

Chief Executive Officer, GenOn Energy, Inc.