NRG ENERGY, INC.
Form POS AM
March 21, 2014

As submitted to the Securities and Exchange Commission on March 21, 2014

Registration No. 333-191797

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Post-Effective Amendment No. 1
to

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**4911**	**41-1724239**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

211 Carnegie Center, Princeton, NJ 08540
Telephone: (609) 524-4500
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Brian Curci
Deputy General Counsel and Corporate Secretary
211 Carnegie Center
Princeton, NJ 08540
Telephone: (609) 524-4500
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Katayun I. Jaffari
Ballard Spahr LLP
1735 Market St., 51st Floor

Philadelphia, PA 19103
Telephone: (215) 864-8475

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE

This Post-Effective Amendment No. 1 to the Registration Statement on Form S-1, as amended (File No. 333-191797), or the Registration Statement, is being filed pursuant to the undertakings in Item 17 of the Registration Statement. The Registration Statement was declared effective on December 26, 2013. This Post-Effective Amendment updates and supplements the information contained in the Registration Statement to include the information contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which was filed with the Securities and Exchange Commission, or the SEC, on February 28, 2014, the Company's Current Reports on Form 8-K that have been filed with the SEC since December 31, 2013, and the financial statements of Edison Mission Energy for the fiscal year ended December 31, 2013. This Post-Effective Amendment also updates certain financial and other information previously provided in the Registration Statement.

The Registration Statement relates to shares of NRG Energy, Inc.'s, or NRG's, common stock that are to be issued to Edison Mission Energy, or EME, in connection with a chapter 11 plan of reorganization, or the Plan, under chapter 11 of title 11 of the United States Code. On October 18, 2013, NRG and NRG Energy Holdings, Inc., a wholly owned subsidiary of NRG, or NRG Holdings, entered into a Plan Sponsor Agreement with EME, certain of EME's debtor subsidiaries, the Official Committee of Unsecured Creditors of EME and its debtor subsidiaries, the PoJo Parties (as defined in the Plan Sponsor Agreement) and certain of EME's noteholders that are signatories to such agreement, or the Plan Sponsor Agreement, which provides for the parties to pursue confirmation by the United States Bankruptcy Court for the Northern District of Illinois, or the Bankruptcy Court, of the Plan that will implement a reorganization of EME and such debtor subsidiaries. Pursuant to the Plan Sponsor Agreement, on October 18, 2013, NRG entered into an Asset Purchase Agreement, or the Purchase Agreement, with EME and NRG Holdings, which provides for the acquisition of substantially all of EME's assets, including its equity interests in certain of its direct subsidiaries and thereby such subsidiaries' assets and liabilities, by NRG Holdings upon confirmation of the Plan by the Bankruptcy Court. The Plan was confirmed by the Bankruptcy Court on March 11, 2014. The Plan is expected to become effective contemporaneously with the consummation of the transactions contemplated by the Purchase Agreement, subject to customary closing conditions.

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and the selling stockholders are not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

PROSPECTUS SUBJECT TO COMPLETION DATED MARCH 21, 2014

NRG Energy, Inc.

12,671,977 Shares of Common Stock

This prospectus relates to the distribution of 12,671,977 shares of our common stock by Edison Mission Energy, or EME, the selling stockholder under this prospectus, pursuant to a chapter 11 plan of reorganization, or the Plan, under chapter 11 of title 11 of the United States Code, or the Bankruptcy Code. The Plan was confirmed by the United States Bankruptcy Court for the Northern District of Illinois on March 11, 2014. This prospectus amends, supplements and updates our prospectus dated December 26, 2013, or the Original Prospectus. The 12,671,977 shares of common stock covered by this prospectus will be sold by us to EME pursuant to an Asset Purchase Agreement, or the Purchase Agreement, dated October 18, 2013, by and among EME, NRG Energy, Inc., or NRG, and NRG Energy Holdings Inc., a wholly owned subsidiary of NRG, or the Purchaser. Pursuant to the Purchase Agreement, the Purchaser will acquire substantially all of EME's assets, including its equity interests in certain of its direct subsidiaries and thereby such subsidiaries' assets and liabilities. As partial consideration for the acquisition of certain assets of EME by the Purchaser under the Purchase Agreement, we will issue shares of our common stock to EME, which shares will vest in a liquidating trust organized pursuant to the Plan. EME, as a selling stockholder under this prospectus and as a statutory underwriter, through such liquidating trust, will distribute such shares to its unsecured creditors in accordance with the Plan. We provide more information about how the shares of common stock will be distributed in the section titled "Plan of Distribution" on page 27 of the Original Prospectus, as supplemented by this Prospectus. The shares of common stock registered under this prospectus represent an aggregate amount of $350 million of the total consideration paid in the acquisition.

We will not receive any cash proceeds from the sale of shares registered under this prospectus.

This prospectus should be read in conjunction with the Original Prospectus. If there is any inconsistency between the information in the Original Prospectus and this prospectus, you should rely on the information in this prospectus.

Our common stock is listed on the New York Stock Exchange under the symbol "NRG." On March 20, 2014, the closing sale price of our common stock on the New York Stock Exchange was $30.47.

Investing in our common stock involves risks that are described in the "Risk Factors" section beginning on page 10 of the Original Prospectus and on page 37 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, incorporated herein by reference.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March , 2014

SUMMARY FINANCIAL DATA

The following tables set forth a summary of our consolidated historical financial data as of, and for the period ended on, the dates indicated. The annual historical information is derived from our audited consolidated financial statements as of and for the five-year period ended December 31, 2013. You should read this data together with our audited consolidated financial statements and related notes to our financial statements contained in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2013, or the 2013 Form 10-K which has been incorporated by reference into this prospectus. Our historical results are not necessarily indicative of our future results.

	Year Ended December 31,				
	2013(a)	2012(b)	2011(a)	2010	2009
	(in millions, except per share data)				
Statement of Income Data:					
Total operating revenues	11,295	$ 8,422	$ 9,079	$ 8,849	$ 8,952
Total operating costs and expenses, and other expenses	11,829	8,434	9,725	8,119	7,283
Income (loss) from continuing operations, net	(352)	315	197	476	941
Net income (loss) attributable to NRG Energy, Inc.	(386)	$ 295	$ 197	$ 477	$ 942
Per Share Data:					
Income (loss) attributable to NRG from continuing operations basic	(1.09)	$ 1.36	$ 0.78	$ 1.86	$ 3.70
Income attributable to NRG from continuing operations diluted	(1.09)	1.35	0.78	1.84	3.44
Net income (loss) attributable to NRG basic	(1.22)	1.23	0.78	1.86	3.70
Net income (loss) attributable to NRG diluted	(1.22)	1.22	0.78	1.84	3.44
Cash dividends per common share	0.45	0.18			
Balance Sheet Data:					
Current assets	7,596	$ 7,972	$ 7,749	$ 7,137	$ 6,208
Current liabilities	4,204	4,670	5,861	4,220	3,762
Property, plant and equipment, net	19,851	20,153	13,621	12,517	11,564
Total assets	33,902	34,983	26,900	26,896	23,378
Long-term debt, including current maturities, capital leases, and funded letter of credit	16,817	15,883	9,832	10,511	8,418
Total stockholders' equity	10,469	$ 10,269	$ 7,669	$ 8,072	$ 7,697

(a) Refer to Note 10, *Asset Impairments*, to our 2013 Form 10-K, for a description of impairment charges recorded in 2013 and 2011.

(b) Refer to Note 3, *Business Acquisitions and Dispositions*, to our 2013 Form 10-K, for a description of the acquisition of GenOn on December 14, 2012.

PRO FORMA FINANCIAL STATEMENTS

Unaudited Pro Forma Condensed Consolidated Combined Financial Statements

The Unaudited Pro Forma Condensed Consolidated Combined Financial Statements, or the pro forma financial statements, combine the historical consolidated financial statements of NRG Energy, Inc., or NRG, and Edison Mission Energy, or EME, to illustrate the potential effect of the Acquisition. The pro forma financial statements are based on, and should be read in conjunction with, the:

- accompanying notes to the Unaudited Pro Forma Condensed Consolidated Combined Financial Statements;
- consolidated financial statements of NRG for the year ended December 31, 2013 and the notes relating thereto, incorporated herein by reference; and
- consolidated financial statements of EME for the year ended December 31, 2013 and the notes relating thereto, incorporated herein by reference.

The historical consolidated financial statements have been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the Acquisition, (2) factually supportable and (3) with respect to the pro forma statements of operations, expected to have a continuing impact on the combined results. The Unaudited Pro Forma Condensed Consolidated Combined Statements of Operations, or the pro forma statement of operations, for the year ended December 31, 2013, give effect to the Acquisition as if it occurred on January 1, 2013. The Unaudited Pro Forma Condensed Consolidated Combined Balance Sheet, or the pro forma balance sheet, as of December 31, 2013, gives effect to the Acquisition as if it occurred on December 31, 2013.

As described in the accompanying notes, the pro forma financial statements have been prepared using the acquisition method of accounting under existing United States generally accepted accounting principles, or GAAP, and the regulations of the Securities and Exchange Commission. The expected purchase price will be allocated to EME's assets and liabilities based upon their estimated fair values as of the date of the Acquisition. Valuations necessary to determine the fair value of the assets and liabilities have not been completed and cannot be made prior to the completion of the transaction.

Accordingly, the pro forma purchase price adjustments are preliminary, subject to future adjustments, and have been made solely for the purpose of providing the unaudited pro forma combined financial information presented herewith. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying pro forma financial statements and the combined company's future results of operations and financial position. The pro forma financial statements have been presented for informational purposes only and are not necessarily indicative of what the combined company's results of operations and financial position would have been had the Acquisition been completed on the dates indicated. NRG could incur significant costs to integrate NRG's and EME's businesses. The pro forma financial statements do not reflect the cost of any integration activities or benefits that may result from synergies that may be derived from any integration activities. In addition, the pro forma financial statements do not purport to project the future results of operations or financial position of the combined company.

Unaudited Pro Forma Condensed Consolidated Combined Statement of Operations
Year ended December 31, 2013

	NRG Energy, Inc. Historical	Edison Mission Energy Historical	Pro Forma Adjustments	Pro Forma Combined
	(in millions, except share and per share data)			
Operating revenues				
Total operating revenues	$ 11,295	$ 1,331	$ (28)(a)	$ 12,598
Operating Costs and Expenses				
Cost of operations	8,121	1,044		9,165
Depreciation and amortization	1,256	271	(76)(b)	1,451
Selling, general and administrative	904	131		1,035
Impairment losses and other charges	459	464		923
Acquisition-related transaction and integration costs	128			128
Development activity expense	84			84
Total operating costs and expenses	10,952	1,910	(76)	12,786
Operating Income/(Loss)	343	(579)	48	(188)
Other Income/(Expense)				
Equity in earnings of unconsolidated affiliates	7	45		52
Other income, net	13	11		24
Impairment losses on investments	(99)			(99)
Loss on debt extinguishment	(50)	(3)		(53)
Interest expense	(848)	(89)	(44)(c)	(981)
Total other income / (expense)	(977)	(36)	(44)	(1,057)
Loss From Continuing Operations Before Income Taxes	(634)	(615)	4	(1,245)
Reorganization items, net		120		120
Income tax benefit	(282)	(93)	2(d)	(373)
Loss From Continuing Operations	$ (352)	$ (642)	$ 2	$ (992)
Loss Per Share Attributable to NRG Energy, Inc. Common Stockholders				
Weighted average number of common shares outstanding basic	323			336
Loss per Weighted Average Common Share basic	$ (1.22)			$ (3.08)
Weighted average number of common shares outstanding diluted	323			336
Loss per Weighted Average Common Share diluted	$ (1.22)			$ (3.08)

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Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet
As of December 31, 2013

	NRG Energy, Inc. Historical	Edison Mission Energy Historical(e)	Pro Forma Adjustments	Pro Forma Combined
		(in millions)		
ASSETS				
Current Assets				
Cash and cash equivalents	$ 2,254	$ 1,176	$ (1,585)(f)	$ 1,845
Funds deposited by counterparties	63			63
Restricted cash	268	7		275
Accounts receivable trade, net	1,214	83		1,297
Inventory	898	114		1,012
Derivative instruments valuation	1,328	44		1,372
Deferred income taxes	258			258
Cash collateral paid in support of energy risk mgmt activities	276	71		347
Renewable energy grant receivable	539			539
Prepayments and other current assets	498	40		538
Total current assets	7,596	1,535	(1,585)	7,546
Property, Plant and Equipment				
Property, plant and equipment, net of accumulated depreciation	19,851	3,877	(1,436)(g)	22,292
Other Assets				
Equity investments in affiliates	453	513		966
Notes receivable, less current portion	73			73
Goodwill	1,985			1,985
Intangible assets, net of accumulated amortization	1,140			1,140
Nuclear decommissioning trust	551			551
Derivative instruments	311	18		329
Deferred income taxes	1,202			1,202
Other non-current assets	740	1,030		1,770
Total other assets	6,455	1,561		8,016
Total Assets	$ 33,902	$ 6,973	$ (3,021)	$ 37,854

Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet (Continued)
As of December 31, 2013

	NRG Energy, Inc. Historical	Edison Mission Energy Historical(e)	Pro Forma Adjustments	Pro Forma Combined
		(in millions)		
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Current portion of long-term debt and capital leases	$ 1,050	$ 327		$ 1,377
Accounts payable	1,038	88		1,126
Payable to affiliates		16		16
Derivative instruments valuation	1,055			1,055
Cash collateral received in support of energy risk mgmt activities	63			63
Accrued expenses and other current liabilities	998	413		1,411
Total current liabilities	4,204	844		5,048
Other Liabilities				
Long-term debt and capital leases	15,767	4,871	(3,000)(h)	17,638
Nuclear decommissioning reserve	294			294
Nuclear decommissioning trust liability	324			324
Deferred revenues		506	(506)(i)	
Deferred income taxes	22	58		80
Derivative instruments	195	56		251
Out of market commodity contracts	1,177			1,177
Other non current liabilities	1,201	377		1,578
Total non-current liabilities	18,980	5,868	(3,506)	21,342
Total Liabilities	23,184	6,712	(3,506)	26,390
Preferred Stock Mezzanine	249			249
Stockholders' Equity				
Common stock	4	64	(64)(j)	4
Additional paid-in capital	7,840	1,137	(773)(j)(k)	8,204
Retained earnings	3,695	(1,261)	1,261(j)	3,695
Less treasury stock, at cost	(1,942)			(1,942)
Accumulated other comprehensive income	5	(61)	61(j)	5
Noncontrolling Interest	867	382		1,249
Total Stockholders' Equity	10,469	261	485	11,215
Total Liabilities and Stockholders' Equity	$ 33,902	$ 6,973	$ (3,021)	$ 37,854

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

(a)

Represents an adjustment to conform EME's policy for recording the receipt of cash grants as deferred revenue to NRG's policy of reducing the value of the related property, plant and equipment. EME had recorded revenue related to these cash grants of $28 million for the year ended December 31, 2013.

(b)

Represents the estimated decrease in net depreciation expense resulting from potential fair value adjustments to EME's property, plant and equipment. The estimate is preliminary, subject to change and could vary materially from the actual adjustment on the date of the Acquisition. For each $100 million change in the fair value adjustment to property, plant and equipment, combined depreciation expense would be expected to change by approximately $5 million. The estimated useful lives of the property, plant and equipment range from 3 to 35 years.

(c)

Reflects the estimated increase in interest expense for borrowings necessary to fund the purchase price of the Acquisition. To fund the purchase price of the Acquisition, in January 2014, NRG issued $700 million of senior notes at an interest rate of 6.25%. This would have resulted in approximately $44 million of additional interest expense for the year ended December 31, 2013. EME did not record interest expense for the EME notes for the year ended December 31, 2013.

(d)

Represents the adjustment to record the tax effect of the reduction in revenue, depreciation expense and interest expense, calculated utilizing NRG's estimated combined statutory federal and state tax rate of 37.0%.

(e)

Based on the amounts reported in the consolidated balance sheet as of December 31, 2013, certain financial statement line items included in EME's historical presentation have been reclassified to the corresponding line items included in NRG's historical presentation. These reclassifications have no effect on the total assets, total liabilities or stockholders' equity reported by NRG or EME.

(f)

Represents cash utilized to fund the purchase price of the Acquisition.

(g)

Represents the adjustment to reflect EME's property, plant and equipment at its estimated fair value on the date of the Acquisition. The estimate is preliminary, subject to change and could vary materially from the actual adjustment at the date of the Acquisition. For each $100 million change in the fair value adjustment to property, plant and equipment, combined depreciation expense would be expected to change by approximately $5 million. The estimated useful lives of the property, plant and equipment range from 3 to 35 years.

(h)

Represents the estimated decrease in long-term debt as NRG will not assume the $3.7 billion of EME notes in connection with the Acquisition, offset by the estimated increase in long-term debt for borrowings necessary to fund the purchase price of the Acquisition. In January 2014, NRG issued $700 million of senior notes at an interest rate of 6.25%.

(i)

Represents an adjustment to conform EME's policy for recording the receipt of cash grants as deferred revenue to NRG's policy of reducing the value of the related property, plant and equipment.

(j)

Represents the issuance of NRG common stock in connection with this offering and adjustments to equity to reflect the impact of the Acquisition.

(k)

The estimated purchase price for the Acquisition is $2,649 million, which is expected to be funded by the following components:

	(in millions)
Cash and cash equivalents	$ 1,585
Senior notes to be issued	700
Common stock issued in this offering	364
	$ 2,649

The estimated purchase price reflects the increase in value of the 12,671,977 shares of NRG common stock from the date of the Purchase Agreement through December 31, 2013.

The allocation of the preliminary purchase price to the fair values of the assets acquired and liabilities assumed is as follows:

	(in millions)
Current assets	$ 1,535
Property, plant and equipment	2,441
Other non-current assets	1,561
Total assets	5,523
Current liabilities, including current maturities of long-term debt	844
Long-term debt	1,171
Non-current liabilities	491
Total liabilities	2,506
Noncontrolling interest	382
Estimated fair value of net assets acquired	$ 2,649

The allocation of the preliminary purchase price to the fair values of assets acquired and liabilities assumed includes pro forma adjustments to reflect the fair values of EME's assets and liabilities at the time of the completion of the Acquisition. The final allocation of the purchase price could differ materially from the preliminary allocation used for the Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet primarily because power market prices, interest rates and other valuation variables will fluctuate over time and be different at the time of completion of the Acquisition compared to the amounts assumed in the pro forma adjustments.

EXPERTS

The consolidated financial statements and schedules of NRG Energy, Inc. as of December 31, 2013 and 2012, and for each of the years in the three-year period ended December 31, 2013, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2013 have been incorporated by reference herein upon the reports of KPMG LLP, independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

The financial statements of Edison Mission Energy as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 included in this prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to Edison Mission Energy's ability to continue as a going concern as described in Note 1 to the financial statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Midwest Generation, LLC as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 included in this prospectus have been so included in reliance on the report (which contains an explanatory paragraph relating to Midwest Generation LLC's ability to continue as a going concern as described in Note 1 to the financial statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

INCORPORATION BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with them into this prospectus, which means that we can disclose important information to you by referring you to those documents and those documents will be considered part of this prospectus. We incorporate by reference the documents listed below that we file with the SEC under Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than portions of these documents deemed to be "furnished" or not deemed to be "filed," including the portions of these documents that are either (1) described in paragraphs (d)(1), (d)(2), (d)(3) or (e)(5) of Item 407 of Regulation S-K promulgated by the SEC or (2) furnished under Item 2.02 or Item 7.01 of a Current Report on Form 8-K, including any exhibits included with such Items):

- our annual report on Form 10-K for the year ended December 31, 2013 filed on February 28, 2014;
- the information specifically incorporated by reference into our Form 10-K for the year ended December 31, 2012 filed on February 27, 2013 from our proxy statement for our 2013 Annual Meeting of Stockholders filed on Schedule 14A on March 13, 2013; and
- our current reports on Form 8-K filed on January 28, 2014 and March 10, 2014.

If you make a request for such information in writing or by telephone, we will provide you, without charge, a copy of any or all of the information incorporated by reference in this prospectus. Any such request should be directed to:

NRG Energy, Inc.
211 Carnegie Center
Princeton, NJ 08540
(609) 524-4500
Attention: General Counsel

You should rely only on the information contained in, or incorporated by reference in, this prospectus. We have not authorized anyone else to provide you with different or additional information. This prospectus does not offer to sell or solicit any offer to buy any securities in any jurisdiction where the offer or sale is unlawful. You should not assume that the information in this prospectus or in any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information with respect to NRG Energy, Inc. and the common stock offered hereby, reference is made to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You can inspect and copy these reports, proxy statements and other information at the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings will also be available to you on the SEC's website. The address of this site is *http://www.sec.gov*.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of Edison Mission Energy:

In our opinion, the accompanying consolidated balance sheets and the related statements of operations, of comprehensive loss, of total equity and of cash flows present fairly, in all material respects, the financial position of Edison Mission Energy (the "Company") and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 1 to the consolidated financial statements, on December 17, 2012, the Company and several of its subsidiaries filed voluntary petitions for relief under the provisions of Chapter 11 of the United States Bankruptcy Code. Uncertainties inherent in the bankruptcy process raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 16. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
March 12, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Member of Midwest Generation, LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of member's equity and of cash flows present fairly, in all material respects, the financial position of Midwest Generation, LLC (the "Company") and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 1 to the consolidated financial statements, on December 17, 2012, the Company filed voluntary petitions for relief under the provisions of Chapter 11 of the United States Bankruptcy Code. Uncertainties inherent in the bankruptcy process raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 16. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
March 12, 2014

EDISON MISSION ENERGY AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)

	Years Ended December 31, 2013	2012	2011
Operating Revenues	$ 1,331	$ 1,287	$ 1,653
Operating Expenses			
Fuel	564	602	530
Plant operations	405	495	571
Plant operating leases	75	75	75
Depreciation and amortization	271	268	289
Asset impairments and other charges	464	28	714
Administrative and general	131	147	172
Total operating expenses	1,910	1,615	2,351
Operating loss	(579)	(328)	(698)
Other Income (Expense)			
Equity in income from unconsolidated affiliates	45	46	86
Dividend income	6	12	30
Interest expense, net	(89)	(324)	(321)
Loss on early extinguishment of debt	(3)		
Other income, net	5		15
Total other expense	(36)	(266)	(190)
Loss from continuing operations before reorganization items and income taxes	(615)	(594)	(888)
Reorganization items, net	120	43	
Provision (benefit) for income taxes	(93)	160	(441)
Loss From Continuing Operations	(642)	(797)	(447)
Income (Loss) from Operations of Discontinued Subsidiaries, net of tax (Note 14)	1	(112)	(632)
Net Loss	(641)	(909)	(1,079)
Net (Income) Loss Attributable to Noncontrolling Interests (Note 3)	(29)	(16)	1
Net Loss Attributable to Edison Mission Energy Common Shareholder	$ (670)	$ (925)	$ (1,078)

Amounts Attributable to Edison Mission Energy Common Shareholder			
Loss from continuing operations, net of tax	$ (671)	$ (813)	$ (446)
Income (loss) from discontinued operations, net of tax	1	(112)	(632)
Net Loss Attributable to Edison Mission Energy Common Shareholder	$ (670)	$ (925)	$ (1,078)

The accompanying notes are an integral part of these consolidated financial statements.

EDISON MISSION ENERGY AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Net Loss	$ (641)	$ (909)	$ (1,079)
Other comprehensive income (loss), net of tax			
Valuation allowance on deferred tax asset		(6)	
Pension and postretirement benefits other than pensions:			
Prior service adjustment, net of tax	(2)		
Net gain (loss) adjustment, net of tax expense (benefit) of $22, $4 and $(10) for 2013, 2012 and 2011, respectively	35		(15)
Amortization of net loss and prior service adjustment included in expense, net of tax	5	4	2
Unrealized gains (losses) on derivatives qualified as cash flow hedges:			
Unrealized holding gains (losses) arising during the periods, net of income tax expense (benefit) of $19, $(6) and $(7) for 2013, 2012 and 2011, respectively	34	(17)	(12)
Reclassification adjustments included in net loss, net of income tax expense (benefit) of $(3), $16 and $25 for 2013, 2012 and 2011, respectively	5	(25)	(38)
Other comprehensive income (loss), net of tax	77	(44)	(63)
Comprehensive Loss	(564)	(953)	(1,142)
Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(29)	(16)	1
Comprehensive Loss Attributable to Edison Mission Energy Common Shareholder	$ (593)	$ (969)	$ (1,141)

The accompanying notes are an integral part of these consolidated financial statements.

EDISON MISSION ENERGY AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED BALANCE SHEETS

(in millions)

	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	$ 1,176	$ 888
Accounts receivable trade	83	73
Receivables from affiliates	3	8
Inventory	114	175
Derivative assets	44	53
Restricted cash and cash equivalents	7	11
Margin and collateral deposits	71	61
Prepaid expenses and other	37	54
Total current assets	1,535	1,323
Investments in Unconsolidated Affiliates	513	534
Property, Plant and Equipment, less accumulated depreciation of $1,314 and $1,431 at respective dates	3,877	4,516
Other Assets		
Deferred financing costs	34	44
Long-term derivative assets	18	37
Restricted deposits	102	102
Rent payments in excess of levelized rent expense under plant operating leases	791	836
Other long-term assets	103	128
Total other assets	1,048	1,147
Total Assets	$ 6,973	$ 7,520

The accompanying notes are an integral part of these consolidated financial statements.

EDISON MISSION ENERGY AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

	December 31, 2013	December 31, 2012
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable	$ 35	$ 29
Payables to affiliates	16	34
Accrued liabilities and other	149	67
Interest payable	2	1
Current portion of long-term debt	323	307
Short-term debt	4	382
Total current liabilities	529	820
Liabilities subject to compromise	4,015	3,959
Long-term debt net of current portion	1,171	749
Deferred taxes and tax credits, net (Note 7)	58	81
Deferred revenues	506	533
Long-term derivative liabilities	56	118
Other long-term liabilities	377	528
Total Liabilities	6,712	6,788
Commitments and Contingencies (Notes 5, 6, 9 and 10)		
Equity		
Common stock, par value $0.01 per share (10,000 shares authorized; 100 shares issued and outstanding at each date)	64	64
Additional paid-in capital	1,137	1,095
Retained deficit	(1,261)	(577)
Accumulated other comprehensive loss	(61)	(138)
Total Edison Mission Energy common shareholder's equity (deficit)	(121)	444
Noncontrolling Interests	382	288
Total Equity	261	732
Total Liabilities and Equity	$ 6,973	$ 7,520

The accompanying notes are an integral part of these consolidated financial statements.

EDISON MISSION ENERGY AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF TOTAL EQUITY

(in millions)

	Edison Mission Energy Shareholder's Equity					
	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance at December 31, 2010	$ 64	$ 1,336	$ 1,448	$ (31)	$ 4	$ 2,821
Net loss			(1,078)		(1)	(1,079)
Other comprehensive loss, net of tax				(63)		(63)
Payments to Edison International for stock purchases related to stock-based compensation			(5)			(5)
Excess tax benefits related to stock option exercises		2				2
Other stock transactions, net		4				4
Purchase of noncontrolling interests		(15)			(1)	(16)
Balance at December 31, 2011	64	1,327	365	(94)	2	1,664
Net income (loss)			(925)		16	(909)
Other comprehensive loss, net of tax				(44)		(44)
Payments to Edison International for stock purchases related to stock-based compensation			(17)			(17)
Non-cash distribution to Edison International(1)		(222)				(222)
Excess tax benefits related to stock option exercises		5				5
Other stock transactions, net		6				6
Contributions from noncontrolling interests(2)					288	288
Distributions to noncontrolling interests					(18)	(18)
Transfers of assets to Capistrano Wind Partners(3)		(21)				(21)
Balance at December 31, 2012	64	1,095	(577)	(138)	288	732
Net income (loss)			(670)		29	(641)
Other comprehensive income, net of tax				77		77
Payments to Edison International for stock purchases related to stock-based compensation			(14)			(14)
Cash contribution from Edison International(1)		12				12
Non-cash contribution from Edison International(1)		25				25
Excess tax benefits related to stock option exercises		3				3
Other stock transactions, net		2				2
Contributions from noncontrolling interests(2)					94	94
Distributions to noncontrolling interests					(29)	(29)
Balance at December 31, 2013	$ 64	$ 1,137	$ (1,261)	$ (61)	$ 382	$ 261

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(1) During 2012, EME recorded a non-cash distribution to EIX related to the tax-allocation agreements. During 2013, EME received contributions from EIX related to the tax-allocation agreements. See Note 7 Income Taxes EME Deferred Tax Assets and Liabilities.

(2)
Funds contributed by third-party investors to Capistrano Wind Partners. For further information, see Note 3 Variable Interest Entities Projects or Entities that are Consolidated Capistrano Wind Partners.

(3)
Additional paid in capital was reduced by $21 million due to a new tax basis in the assets transferred to Capistrano Wind Partners. For further information, see Note 3 Variable Interest Entities Projects or Entities that are Consolidated Capistrano Wind Partners.

The accompanying notes are an integral part of these consolidated financial statements.

EDISON MISSION ENERGY AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF CASH FLOWS (in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Cash Flows From Operating Activities			
Net loss	$ (641)	$ (909)	$ (1,079)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Non-cash reorganization items, net	48	23	
Equity in income from unconsolidated affiliates	(45)	(46)	(85)
Distributions from unconsolidated affiliates	45	24	82
Mark to market on interest rate swaps	(6)		
Depreciation and amortization	290	292	330
Deferred taxes and tax credits	(72)	162	(903)
Asset impairments and other charges	464	117	1,738
Loss on early extinguishment of debt	3		
Proceeds from US Treasury Grants		44	388
Changes in operating assets and liabilities:			
(Increase) decrease in margin and collateral deposits	(10)	(20)	14
(Increase) decrease in receivables	(5)	30	251
Decrease (increase) in inventory	61	(6)	(42)
Decrease (increase) in prepaid expenses and other	13	(9)	(9)
Decrease (increase) in restricted cash and cash equivalents	4	(2)	(4)
Decrease (increase) in rent payments in excess of levelized rent expense	45	(76)	(76)
Increase in payables, other current liabilities and liabilities subject to compromise	50	5	172
Decrease (increase) in derivative assets and liabilities, net	33	(26)	
Decrease (increase) in other operating assets	3	(2)	(73)
Decrease in other operating liabilities	(47)	(68)	(44)
Operating cash flows from continuing operations	233	(467)	660
Operating cash flows from discontinued operations, net	(2)	(46)	(34)
Net cash provided by (used in) operating activities	231	(513)	626
Cash Flows From Financing Activities			
Cash contributions from noncontrolling interests	94	288	
Borrowings under short-term debt	4	195	32
Borrowings under long-term debt	171	79	481
Payments on debt	(123)	(56)	(107)
Borrowing held in escrow pending completion of project construction		97	(97)
Cash contribution from Edison International related to the tax-allocation agreements	12		
Cash dividends to noncontrolling interests	(29)	(18)	
Payments to affiliates related to stock-based awards	(14)	(17)	(8)
Excess tax benefits related to stock-based exercises	3	5	2
Financing costs	(6)	(9)	(26)
Net cash provided by financing activities from continuing operations	112	564	277
Cash Flows From Investing Activities			
Capital expenditures	(92)	(355)	(672)
Proceeds from sale of assets	3	4	9
Proceeds from return of capital and loan repayments from unconsolidated affiliates	24	10	46
Proceeds from settlement of insurance claims	2	2	

Cash settlement with turbine manufacturer	5		
Purchase of interest of acquired companies			(3)
Investments in and loans to unconsolidated affiliates	(3)		(10)
Increase in restricted deposits and restricted cash and cash equivalents		(83)	(4)
Investments in other assets	4	(8)	(30)
Investing cash flows from continuing operations	(57)	(430)	(664)
Investing cash flows from discontinued operations, net		(31)	(14)
Net cash used in investing activities	(57)	(461)	(678)
Net increase (decrease) in cash and cash equivalents from continuing operations	288	(333)	273
Cash and cash equivalents at beginning of period from continuing operations	888	1,221	948
Cash and cash equivalents at end of period from continuing operations	1,176	888	1,221
Net decrease in cash and cash equivalents from discontinued operations	(2)	(77)	(48)
Cash and cash equivalents at beginning of period from discontinued operations	2	79	127
Cash and cash equivalents at end of period from discontinued operations	$	$ 2	$ 79

The accompanying notes are an integral part of these consolidated financial statements.

MIDWEST GENERATION, LLC AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Operating Revenues from Marketing Affiliate	$ 817	$ 892	$ 1,286
Operating Expenses			
Fuel	539	582	512
Plant operations	258	369	457
Depreciation and amortization	119	128	158
Asset impairments and other charges	465	14	653
Administrative and general	22	18	22
Impairment of loan to affiliate (Note 15)		1,378	
Total operating expenses	1,403	2,489	1,802
Operating loss	(586)	(1,597)	(516)
Other Income (Expense)			
Interest and other income		110	114
Interest expense	(23)	(33)	(40)
Total other income (expense)	(23)	77	74
Loss before reorganization items and income taxes	(609)	(1,520)	(442)
Reorganization items, net	41	6	
Benefit for income taxes	(17)	(62)	(172)
Net Loss	$ (633)	$ (1,464)	$ (270)

The accompanying notes are an integral part of these consolidated financial statements.

MIDWEST GENERATION, LLC AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Net Loss	$ (633)	$ (1,464)	$ (270)
Other comprehensive income (loss), net of tax			
Valuation allowance on deferred tax asset		(12)	
Pension and postretirement benefits other than pensions:			
Net gain (loss) adjustment, net of tax expense (benefit) of $17, $0 and $(8) for 2013, 2012 and 2011, respectively	25	(1)	(13)
Amortization of net loss and prior service adjustment included in expense, net of tax	3	2	1
Unrealized gains (losses) on derivatives qualified as cash flow hedges:			
Unrealized holding gains (losses) arising during period, net of income tax expense (benefit) of $(1), $3 and $15 for 2013, 2012 and 2011, respectively	(1)	4	23
Reclassification adjustments included in net loss, net of income tax expense (benefit) of $(2), $17 and $16 for 2013, 2012 and 2011, respectively	2	(26)	(25)
Other comprehensive income (loss), net of tax	29	(33)	(14)
Comprehensive Loss	$ (604)	$ (1,497)	$ (284)

The accompanying notes are an integral part of these consolidated financial statements.

MIDWEST GENERATION, LLC AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED BALANCE SHEETS

(in millions, except unit amounts)

	December 31, 2013	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	$ 118	$ 95
Due from affiliates, net (Note 15)	47	40
Inventory	94	165
Derivative assets		2
Other current assets	14	20
Total current assets	273	322
Property, Plant and Equipment, less accumulated depreciation of $1,011 and $1,260 at respective dates	1,523	2,078
Other long-term assets	10	28
Total Assets	$ 1,806	$ 2,428
Liabilities and Member's Equity		
Current Liabilities		
Accounts payable	$ 9	$ 10
Accrued liabilities	73	18
Due to affiliates	6	3
Interest payable	3	1
Derivative liabilities		3
Current portion of lease financings		6
Total current liabilities	91	41
Liabilities subject to compromise	540	529
Benefit plans and other long-term liabilities	113	192
Total Liabilities	744	762
Commitments and Contingencies (Notes 6, 9 and 10)		
Member's Equity		
Membership interests, no par value (100 units authorized, issued and outstanding at each date)		
Additional paid-in capital	3,405	3,405

Retained deficit		(2,322)		(1,689)
Accumulated other comprehensive loss		(21)		(50)
Total Member's Equity		1,062		1,666
Total Liabilities and Member's Equity	$	1,806	$	2,428

The accompanying notes are an integral part of these consolidated financial statements.

MIDWEST GENERATION, LLC AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY

(in millions)

	Membership Interests	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Member's Equity
Balance at December 31, 2010	$	$ 3,511	$ 270	$ (3)	$ 3,778
Net loss			(270)		(270)
Other comprehensive loss, net of tax				(14)	(14)
Cash distribution to parent			(225)		(225)
Balance at December 31, 2011		3,511	(225)	(17)	3,269
Net loss			(1,464)		(1,464)
Other comprehensive loss, net of tax				(33)	(33)
Non-cash distribution to parent(1)		(106)			(106)
Balance at December 31, 2012		3,405	(1,689)	(50)	1,666
Net loss			(633)		(633)
Other comprehensive income, net of tax				29	29
Balance at December 31, 2013	$	$ 3,405	$ (2,322)	$ (21)	$ 1,062

(1) During 2012, Midwest Generation recorded a non-cash distribution to its parent related to the tax-allocation agreements. See Note 7 Income Taxes Midwest Generation Deferred Tax Assets and Liabilities.

The accompanying notes are an integral part of these consolidated financial statements.

MIDWEST GENERATION, LLC AND SUBSIDIARIES
(Debtor-in-Possession)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Cash Flows From Operating Activities			
Net loss	$ (633)	$ (1,464)	$ (270)
Adjustments to reconcile loss to net cash provided by operating activities:			
Non-cash reorganization items, net	26	6	
Depreciation and amortization	119	129	160
Deferred taxes and tax credits	(19)	54	(145)
Asset impairments and other charges	465	14	653
Impairment of loan to affiliate		1,378	
Changes in operating assets and liabilities:			
(Increase) decrease in due to/from affiliates, net	(4)	(64)	28
Decrease (increase) in inventory	71	(6)	(36)
Increase in other current assets	3	(3)	(25)
Decrease in emission allowances			2
Increase (decrease) in accounts payable, other current liabilities and liabilities subject to compromise	3	(34)	(7)
Increase (decrease) in interest payable	2	(5)	(4)
Decrease in derivative assets and liabilities, net	1	6	1
Increase in other operating liabilities	9	2	7
Net cash provided by operating activities	43	13	364
Cash Flows From Financing Activities			
Cash distributions to parent			(225)
Repayments of lease financing	(6)	(116)	(109)
Net cash used in financing activities	(6)	(116)	(334)
Cash Flows From Investing Activities			
Capital expenditures	(16)	(30)	(103)
Proceeds from sale of assets	1	3	
Proceeds from settlement of insurance claims		2	
Decrease (increase) in restricted deposits and restricted cash and cash equivalents	1	(2)	
Investments in other assets			(18)
Repayment of loan from affiliate		12	9
Net cash used in investing activities	(14)	(15)	(112)
Net increase (decrease) increase in cash and cash equivalents	23	(118)	(82)
Cash and cash equivalents at beginning of period	95	213	295

Cash and cash equivalents at end of period	$ 118	$ 95	$ 213

The accompanying notes are an integral part of these consolidated financial statements.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted)

This is a combined annual report of Edison Mission Energy (EME) and its indirect subsidiary Midwest Generation, LLC (Midwest Generation). EME is a holding company whose subsidiaries and affiliates are engaged in the business of developing, acquiring, owning or leasing, operating and selling energy and capacity from independent power production facilities. EME also sells energy and capacity under contracts to specific purchasers or on a merchant basis in the marketplace and into wholesale markets. It also engages in hedging and energy trading activities in power markets, and provides scheduling and other services through its Edison Mission Marketing & Trading, Inc. (EMMT) subsidiary.

EME's coal-fired facilities are primarily owned or leased and operated by Midwest Generation. As of December 31, 2013, Midwest Generation operated 4,619 megawatts (MW) of power plants in Illinois (the Midwest Generation plants) based on installed capacity acknowledged by PJM Interconnection, LLC (PJM):

- the Powerton, Joliet, Will County, and Waukegan coal-fired generating plants consisting of 4,314 MW; and
- the Fisk and Waukegan on-site, oil-fired generating peakers consisting of 305 MW.

Midwest Generation leases the Powerton Station and Units 7 and 8 of the Joliet Station from third-party lessors pursuant to a sale-leaseback transaction completed in August 2000 (the Powerton and Joliet Sale Leaseback). Midwest Generation's obligations under these leases are guaranteed by EME. In connection with the Powerton and Joliet Sale Leaseback, Midwest Generation facilitated the issuance of lessor debt of $1.147 billion in the form of pass-through certificates (the Senior Lease Obligation Bonds).

EME is incorporated under the state laws of Delaware and is an indirect subsidiary of Edison International (EIX). Midwest Generation, a Delaware limited liability company, is a wholly owned subsidiary of Edison Mission Midwest Holdings Co. Edison Mission Midwest Holdings is a wholly owned subsidiary of Midwest Generation EME, LLC, which is in turn a wholly owned subsidiary of EME.

Chapter 11 Cases

On December 17, 2012, EME and 16 of its wholly owned subsidiaries, Camino Energy Company, Chestnut Ridge Energy Company, Edison Mission Energy Fuel Services, LLC, Edison Mission Fuel Resources, Inc., Edison Mission Fuel Transportation, Inc., Edison Mission Holdings Co., Edison Mission Midwest Holdings Co., Midwest Finance Corp., Midwest Generation EME, LLC, Midwest Generation, Midwest Generation Procurement Services, LLC, Midwest Peaker Holdings, Inc., Mission Energy Westside, Inc., San Joaquin Energy Company, Southern Sierra Energy Company, and Western Sierra Energy Company (the Initial Debtors) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On May 2, 2013, 3 additional EME subsidiaries, EME Homer City Generation L.P. (Homer City), Homer City Property Holdings Inc., and Edison Mission Finance Company (collectively, the Homer City Debtors) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The Initial Debtors' and the Homer City Debtors' chapter 11 cases (collectively, the Chapter 11 Cases) are being jointly administered under case No. 12-49219 (JPC). The Initial Debtors and the Homer City Debtors are collectively referred to as the Debtor Entities. The Debtor Entities filed the Chapter 11

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Cases due to a combination of pending debt maturities, low realized energy and capacity prices, high fuel costs and low generation, and capital requirements associated with retrofitting the Midwest Generation plants to comply with governmental regulations.

In October 2013, EME entered into an Asset Purchase Agreement (the Acquisition Agreement) and the Debtor Entities entered into a Plan Sponsor Agreement that, upon completion, would implement a reorganization of the Debtor Entities through a sale of substantially all of EME's assets, including its equity interests in substantially all of its debtor and non-debtor subsidiaries, to a wholly owned subsidiary of NRG Energy Inc. (the Purchaser). The sale transaction (the NRG Sale) is a key component of EME's plan of reorganization.

In February 2014, EME entered into a Settlement Agreement with EIX and certain of its unsecured creditors holding a majority of its outstanding senior unsecured notes (the Settlement Agreement). Under the Settlement Agreement, EME filed a Third Amended Plan of Reorganization (the Plan) under which, on the effective date of the Plan (the Effective Date), EME will emerge from bankruptcy free of liabilities but will remain an indirect wholly-owned subsidiary of EIX. A new entity (the Reorganization Trust) will be formed and will make distributions pursuant to the Plan for the benefit of EME's existing creditors. All assets and liabilities of EME that are not otherwise discharged in the bankruptcy or transferred to NRG as part of the NRG Sale will be transferred to the Reorganization Trust, with the exception of (i) EME's income tax benefits generated as of the Effective Date which had not previously been paid to EME under tax-allocation agreements with EIX (EME Tax Attributes), estimated at $1.19 billion, which will be retained by the EIX consolidated tax group, (ii) liabilities totaling $241 million associated with the qualified pension plan, the executive retirement plan, the executive deferred compensation plan and uncertain federal and state tax positions, which are being assumed by EIX and (iii) EME's indirect interest in Capistrano Wind Partners. EIX will pay the Reorganization Trust amounts equal to 50% of the EME Tax Attributes. EIX has disclosed that they have estimated their exposure to the qualified pension plan, executive retirement plan, executive deferred compensation plan and uncertain federal and state tax positions to be approximately $350 million.

The Bankruptcy Court issued a Confirmation Order in March 2014, which confirmed the Plan. The completion of the NRG Sale is expected in April 2014. For additional information, see Note 16 Restructuring Activities Plan of Reorganization.

The accompanying consolidated financial statements have been prepared assuming that EME and Midwest Generation will continue as going concerns. Financial statements prepared on this basis assume the realization of assets and the satisfaction of liabilities in the normal course of business for the 12-month period following the date of the financial statements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary if EME and Midwest Generation were unable to continue as going concerns. EME's and Midwest Generation's ability to continue as going concerns is dependent on the successful completion of the NRG Sale and an emergence from bankruptcy. However, there is no assurance that these events will occur within their expected time frames or at all.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Basis of Presentation

The consolidated financial statements of EME reflect the accounts of EME and its subsidiary, Midwest Generation. The consolidated financial statements of EME also include the accounts of partnerships in which EME has a controlling interest and variable interest entities (VIEs) in which EME is deemed the primary beneficiary. EME's investments in unconsolidated affiliates and VIEs, in which EME is not deemed to be the primary beneficiary, are mainly accounted for by the equity method. For a discussion of EME's VIEs, see Note 3 Variable Interest Entities. Midwest Generation's consolidated financial statements include the accounts of Midwest Generation and its subsidiaries. All significant intercompany balances and transactions have been eliminated for each reporting entity. The notes to the consolidated financial statements apply to EME and Midwest Generation as indicated parenthetically next to each corresponding disclosure.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires EME and Midwest Generation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents included money market funds totaling $983 million and $615 million for EME and $101 million and $75 million for Midwest Generation at December 31, 2013 and 2012, respectively. The carrying value of cash equivalents equals the fair value as all investments have original maturities of less than three months.

Restricted Cash and Cash Equivalents, and Restricted Deposits

Restricted deposits consisted of cash balances that are restricted to pay amounts required for lease payments, debt service or to provide collateral. At December 31, 2013 and 2012, EME's restricted cash and deposits included $22 million and $49 million, respectively, to support letters of credit issued under EME's letter of credit facilities.

Restricted deposits of $4 million as of both December 31, 2013 and 2012 were included in other long-term assets on Midwest Generation's consolidated balance sheets. These cash balances are restricted to provide collateral or other deposits required by contract.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Inventory

Inventory is stated at the lower of weighted-average cost or market. Inventory is recorded at actual cost when purchased and then expensed at weighted-average cost as used. Inventory consisted of the following:

	EME		Midwest Generation	
	December 31,		December 31,	
(in millions)	2013	2012	2013	2012
Coal, fuel oil and other raw materials	$ 50	$ 123	$ 48	$ 119
Spare parts, materials and supplies	64	52	46	46
Total inventory	$ 114	$ 175	$ 94	$ 165

VIEs (EME only)

A VIE is a legal entity whose equity owners do not have sufficient equity at risk, or as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision making rights, the obligation to absorb losses, or the right to receive the residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE unless specific exceptions or exclusions are met. Commercial and operating activities are generally the factors that most significantly impact the economic performance of VIEs in which EME has a variable interest. Commercial and operating activities include construction, operation and maintenance, fuel procurement, dispatch and compliance with regulatory and contractual requirements.

Allocation of Net Income or Losses to Investors in Certain VIEs (EME only)

During 2012 and 2013, EME raised third-party capital to support the development of a portion of EME's wind portfolio by selling indirect equity interests in certain wind projects through a new venture, Capistrano Wind Partners. Capistrano Wind Partners' partnership agreements contain complex allocation provisions for taxable income and losses, tax credits and cash distributions. EME allocates net income for this consolidated investment to third-party investors based on the Hypothetical Liquidation Book Value (HLBV) method. HLBV is a balance sheet oriented approach that calculates the change in the claims of each partner on the net assets of the investment at the beginning and end of each period. Each partner's claim is equal to the amount each party would receive or pay if the net assets of the investment were to liquidate at book value and the resulting cash was then distributed to investors in accordance with their respective liquidation preferences. EME reports the net income (loss) attributable to the third-party investors as (income) loss attributable to noncontrolling interests in the consolidated statements of operations. For further information, see Note 3 Variable Interest Entities Categories of VIEs Capistrano Wind Equity Capital.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Purchased Emission Allowances, Exemptions and Offsets (EME only)

Purchased emission allowances are stated at the lower of weighted-average cost or market. Purchased emission allowances are recorded at cost when purchased and then expensed at weighted-average cost as used. Cost is reduced to market value if the market value of emission allowances has declined and it is probable that revenues earned from the generation of power will not cover the amounts recorded in the ordinary course of business. Purchased emission allowances are classified as current or long-term assets based on the time the allowances are expected to be used. At December 31, 2013 and 2012, EME had $4 million and $16 million, respectively, of purchased emission allowances, exemptions and offsets, primarily related to the Walnut Creek facility, reflected in other long-term assets in the accompanying consolidated balance sheets.

Property, Plant and Equipment

Property, plant and equipment, including leasehold improvements and construction in progress, are capitalized at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the property, plant and equipment and over the shorter of the lease term or estimated useful life for leasehold improvements. The costs of repairs and maintenance, including periodic major maintenance, are expensed as incurred.

As part of the acquisition of the Midwest Generation plants, EME acquired emission allowances under the United States Environmental Protection Agency's (US EPA) Acid Rain Program. EME uses these emission allowances in the normal course of its business to generate electricity and has classified them as part of property, plant and equipment. Acquired emission allowances are amortized on a straight-line basis.

Estimated useful lives for property, plant and equipment are as follows:

	EME	Midwest Generation
Power plant facilities	2.75 to 35 years	2.75 to 30 years
Leasehold improvements	Shorter of life of lease or estimated useful life	Shorter of life of lease or estimated useful life
Emission allowances	25 to 33.75 years	25 to 33.75 years
Equipment, furniture and fixtures	3 to 10 years	3 to 7 years
Plant and equipment under lease financing	not applicable	30 to 33.75 years

The remaining estimated useful life or lease term at December 31, 2013 for the Midwest Generation plants is as follows. Estimated useful lives of individual facilities could be impacted by

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

decisions related to the installation of environmental remediation equipment. If environmental compliance equipment is not installed, the useful life may be shortened.

Joliet Unit 6	5 years
Joliet Units 7 and 8(1)	17 years
Powerton Station(1)	20 years

(1) Represents leased facilities. The leases may be renewed based on criteria outlined in their respective agreements.

Interest incurred on funds borrowed by EME is capitalized during the construction period. Such capitalized interest is included in property, plant and equipment. Capitalized interest is amortized over the depreciation period of the major plant and facilities for the respective project. Capitalized interest was $7 million, $31 million and $27 million in 2013, 2012 and 2011, respectively. Midwest Generation did not record capitalized interest during the period.

Asset Retirement Obligations

Authoritative guidance on asset retirement obligations (AROs) requires entities to record the fair value of a liability for an ARO in the period in which it is incurred, including a liability for the fair value of a conditional ARO, if the fair value can be reasonably estimated even though uncertainty exists about the timing and/or method of settlement. When an ARO liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased for accretion expense to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Settlement of an ARO liability for an amount other than its recorded amount results in an increase or decrease in expense.

EME and Midwest Generation have recorded a liability representing expected future costs associated with site reclamations, facilities dismantlement and removal of environmental hazards, which is included in other long-term liabilities on EME's consolidated balance sheets and benefit plans and other long-term liabilities on Midwest Generation's consolidated balance sheets.

Impairment of Long-Lived Assets

EME and Midwest Generation evaluate the impairment of long-lived assets based on a review of estimated future cash flows expected to be generated whenever events or changes in circumstances indicate that the carrying amount of such investments or assets may not be recoverable. EME's and Midwest Generation's unit of account is at the plant level and, accordingly, the closure of a unit at a multi-unit site would not result in an impairment of property, plant and equipment unless such condition were to affect an impairment assessment on the entire plant. If the carrying amount of a long-lived asset exceeds the expected future cash flows, undiscounted and without interest charges, an impairment loss is recognized for the excess of the carrying amount over fair value. Fair value is determined via market, cost and income based valuation techniques, as appropriate. For further discussion, see Note 13 Asset Impairments and Other Charges.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

EME also evaluates investments in unconsolidated affiliates for potential impairment. If the carrying value of an unconsolidated affiliate exceeds its fair value, an impairment loss is recorded if the decline is other than temporary.

Sale Leaseback

Midwest Generation has entered into the Powerton and Joliet Sale Leaseback and EME has provided guarantees related to this transaction. Under the terms of the leases (33.75 years for Powerton and 30 years for Joliet), Midwest Generation makes semi-annual lease payments on each January 2 and July 2, which began January 2, 2001. If a lessor intends to sell its interest in the Powerton or Joliet Stations, Midwest Generation has a right of first refusal to acquire the interest at fair market value. Under the terms of each lease, Midwest Generation may request a lessor, at its option, to refinance the lessor debt, which, if completed, would affect the base lease rent. The gain on the sale of the power stations has been deferred and is being amortized over the term of the leases. For additional information on the Powerton and Joliet Sale Leaseback, see Note 9 Commitments and Contingencies Lease Commitments.

EME

EME accounts for long-term leases associated with the Powerton and Joliet Sale Leaseback as operating leases on its separate consolidated financial statements. Minimum lease payments under operating leases are levelized (total minimum lease payments divided by the number of years of the lease) and recorded as rent expense over the terms of the leases. Lease payments in excess of the minimum are recorded as rent expense in the year incurred.

Midwest Generation

Midwest Generation accounts for the Powerton and Joliet Sale Leaseback as a lease financing in its separate consolidated financial statements. Accordingly, Midwest Generation records the power plants as assets in a similar manner to a capital lease and records depreciation expense from the power plants and interest expense from the lease financing.

Allowance for Losses on Notes Receivable (Midwest Generation only)

Notes receivable are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. A valuation allowance will be recorded when it is probable that Midwest Generation will be unable to collect amounts due, including principal and interest, according to the contractual terms and schedule of the loan agreement. For additional information on Midwest Generation's impaired intercompany loan, see Note 15 Related Party Transactions.

Accounting for Reorganization

As a result of the EME and Midwest Generation Chapter 11 Cases, realization of assets and satisfaction of liabilities are subject to a significant number of uncertainties. The consolidated financial

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

statements prepared under Accounting Standards Codification (ASC) 852 *Reorganizations* require the following accounting policies for debtors-in-possession.

Liabilities Subject to Compromise (LSTC)

Unsecured prepetition liabilities that have at least a possibility of not being fully repaid have been reclassified into LSTC, a separate line item on the consolidated balance sheet. LSTC, including claims that have become known after the bankruptcy filing, are reported on the basis of the probably allowed claim. For additional information, see Note 16 Restructuring Activities.

Reorganization Items

Adjustments to amounts classified as LSTC are presented as Reorganization Items, a separate line item on the consolidated statement of operations. Reorganization items include direct and incremental costs of bankruptcy, such as professional fees. In 2012, reorganization items also included the write off of deferred financing costs of $15 million related to the classification of EME's senior notes as part of LSTC. For additional information, see Note 16 Restructuring Activities.

Interest Expense

EME and Midwest Generation will not pay interest expense during bankruptcy and it is not expected to be an allowable claim. Therefore, the filing entities will not accrue interest expense for financial reporting purposes; however, unpaid contractual interest is calculated for disclosure purposes.

Deferred Financing Costs (EME only)

Bank, legal and other direct costs incurred in connection with obtaining financing are deferred and amortized as interest expense on a basis that approximates the effective interest rate method over the term of the related debt. Amortization of deferred financing costs charged to interest expense was $13 million, $19 million and $15 million in 2013, 2012 and 2011, respectively. For additional information, see "Reorganization Items" above.

Revenue Recognition

Generally, revenues and related costs are recognized when electricity is generated, or services are provided, unless the transaction is accounted for as a derivative and does not qualify for the normal purchases and sales exception. EME's subsidiaries enter into power and fuel hedging, optimization transactions and energy trading contracts, all subject to market conditions. One of EME's subsidiaries executes these transactions primarily through the use of physical forward commodity purchases and sales and financial commodity swaps and options. With respect to its physical forward contracts, EME's subsidiaries generally act as the principal, take title to the commodities, and assume the risks and rewards of ownership. EME's subsidiaries record the settlement of non-trading physical forward contracts on a gross basis. EME nets the cost of purchased power against related third-party sales in markets that use locational marginal pricing, currently PJM. Financial swap and option transactions are settled net and, accordingly, EME's subsidiaries do not take title to the underlying commodity.

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MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Therefore, gains and losses from settlement of financial swaps and options are recorded net in operating revenues in the accompanying consolidated statements of operations.

Revenues under certain long-term power sales contracts are recognized based on the output delivered at the lower of the amount billable or the average rate over the contract term. The excess of the amounts billed over the portion recorded as revenues is reflected in deferred revenues on the consolidated balance sheets.

EME accounts for grant income on the deferred method and, accordingly, will recognize operating revenues related to such income over the estimated useful life of the projects. EME received US Treasury Grants for eligible wind projects of $44 million and $388 million in 2012 and 2011, respectively.

Power Purchase Agreements (EME only)

EME enters into long-term power purchase agreements in the normal course of business. A power purchase agreement may be considered a variable interest in a VIE. Under this classification, the power purchase agreement is evaluated to determine if EME is the primary beneficiary in the VIE, in which case, such entity would be consolidated. EME does not have any power purchase agreements in which it is the primary beneficiary.

A power purchase agreement may also contain a lease for accounting purposes. This generally occurs when a power purchase agreement (signed or modified after June 30, 2003) designates a specific power plant in which the buyer purchases substantially all of the output and does not otherwise meet a fixed price per unit of output exception. EME has a number of power purchase agreements that contain leases in which EME is considered the lessor. These agreements are classified as operating leases. EME records rental income under these contracts as electricity is delivered at rates defined in power sales agreements. Revenues from these power sales agreements were $224 million, $124 million and $109 million in 2013, 2012 and 2011, respectively.

A power purchase agreement that does not contain a lease may be classified as a derivative subject to a normal purchases and sales exception, in which case the power purchase agreement is classified as an executory contract. The contracts that are not eligible for the normal purchases and sales exception are defined as a derivative and are recorded on the consolidated balance sheets at fair value. For further information on derivatives and hedging activities, see Note 6 Derivative Instruments and Hedging Activities.

Power purchase agreements that do not meet the preceding classification are accounted for on the accrual basis.

Derivative Instruments and Hedging Activities

Authoritative guidance on derivatives and hedging establishes accounting and reporting standards for derivative instruments (including certain derivative instruments embedded in other contracts). EME and Midwest Generation are required to record derivatives on their balance sheets as either assets or liabilities measured at fair value unless otherwise exempted from derivative treatment as normal purchases and sales. All changes in the fair value of derivative instruments are recognized currently in earnings, unless specific hedge criteria are met, which requires that EME and Midwest Generation formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The accounting guidance for cash flow hedges provides that the effective portion of gains or losses on derivative instruments designated and qualifying as cash flow hedges be reported as a component of other comprehensive loss and be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The remaining gains or losses on the derivative instruments, if any, must be recognized currently in earnings.

Stock-Based Compensation (EME only)

EIX's stock options, performance shares, deferred stock units and restricted stock units have been granted to EME employees under EIX's long-term incentive compensation programs. EME employees ceased receiving new awards under these programs upon the commencement of the Chapter 11 Cases, however, existing awards continue to vest. Upon completion of the NRG Sale and emergence from bankruptcy, all of EME's employees will be terminated. The terminated employees will generally receive one additional year of vesting and any unvested long-term incentive compensation awards will be canceled.

Generally, EIX does not issue new common stock for settlement of equity awards. Rather, a third party is used to purchase shares from the market and deliver for settlement of option exercises, performance shares, and restricted stock units. EIX has discretion to settle certain performance shares awards in common stock; however, awards are generally settled half in cash and half in common stock. Deferred stock units granted to management are settled in cash and represent a liability. Restricted stock units are settled in common stock; however, EIX will substitute cash awards to the extent necessary to pay tax withholding or any government levies.

EME recognizes stock-based compensation expense on a straight-line basis over the requisite service period. EME recognizes stock-based compensation expense for awards granted to retirement-eligible participants on a prorated basis over the initial year or over the period between the date of grant and the date the participant first becomes eligible for retirement. In conjunction with the commencement of the Chapter 11 Cases, EME ceased participating in EIX's long-term incentive compensation programs, and no new EIX stock-based compensation was awarded to EME employees in 2013.

Income Taxes and Tax-Allocation Agreements

EME

Historically, EME participated in tax-allocation agreements with EIX in which EME would be eligible to receive payments from EIX for tax losses and credits generated by EME. During 2012, EIX modified the tax-allocation agreements to terminate EME's participation on December 31, 2013. The parties to the Settlement Agreement have estimated the EME Tax Attributes to be $1.19 billion and have agreed that EIX will pay the Reorganization Trust amounts equal to 50% of the EME Tax

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Attributes as follows: $225 million payable on the Effective Date in cash, with one half of the balance payable on each of September 30, 2015 and September 30, 2016, together with interest at 5% per annum from the Effective Date.

If the Settlement Agreement is terminated, as a result of the termination of the Acquisition Agreement or otherwise, then, as of January 1, 2014 benefits that had been previously generated by EME and utilized in the EIX consolidated tax return on a statutory basis but are unpaid under the tax-allocation agreements will not be available for use by EME in its own consolidated tax return and will not be paid by EIX. Additionally, tax benefits that had previously been generated by EME and not utilized in the EIX consolidated tax return on a statutory basis will generally be available for use by EME in its own consolidated return, but may be reduced by cancellation of indebtedness income (COD income) or as a result of the application of the consolidated return rules.

Under the Plan, EME will continue to be included in the consolidated federal and combined state income tax returns of EIX. EME's tax provision is determined using the "benefits for losses" method. This method is similar to a separate company return, except that EME recognizes, without regard to separate company limitations, additional tax liabilities or benefits based on the impact to the combined group including EME's taxable income or losses and state apportionment factors. Realization of any tax benefits generated by EME is dependent on EME's continued inclusion in the consolidated EIX tax returns, and the generation of sufficient consolidated taxable income by the EIX consolidated tax group prior to the expiration of the loss and credit carryforwards. Differences between the amount recorded in tax provision under the benefits for losses method and the amount of cash expected to be paid or received through the intercompany tax allocation agreements is recorded to equity.

EME accounts for deferred income taxes using the asset-and-liability method, wherein deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities using enacted income tax rates. Historically, in evaluating the realization of tax sharing assets, EME determined whether it was more likely than not the EIX consolidated tax group would generate sufficient taxable income to utilize EME's deferred income tax assets during the period in which EME was a part of the EIX consolidated income tax returns, or if it was more likely than not EME would utilize the deferred income tax assets on its own, after its expected separation from the consolidated group. As a result, as of December 31, 2013 and 2012, EME recorded a valuation allowance on its net deferred tax assets of $752 million and $444 million, respectively. Upon the effectiveness of the Settlement Agreement, EME would expect to reverse the valuation allowance it has recorded. For further information, see Note 7 Income Taxes.

Investment and energy tax credits are deferred and amortized over the term of the power purchase agreement of the respective project while production tax credits are recognized when earned. EME's investments in wind-powered electric generation projects qualify for federal production tax credits, unless a US Treasury Grant has been elected. Certain of EME's wind projects also qualify for state tax credits, which are accounted for similarly to federal production tax credits.

Interest income, interest expense and penalties associated with income taxes are reflected in provision (benefit) for income taxes on EME's consolidated statements of operations.

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MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

Midwest Generation

Midwest Generation is included in the consolidated federal and state income tax returns of EIX and is party to a tax-allocation agreement with its parent Edison Mission Midwest Holdings (the Midwest Generation Tax Allocation Agreement). Midwest Generation's tax allocation method is to allocate current tax liabilities or benefits on a separate return basis, except for the use of state tax apportionment factors of the EIX group for purposes of determining state income taxes. The Midwest Generation Tax Allocation Agreement only permits the use of net operating losses to offset future taxable income and does not include the right to receive payments. Accordingly, if Midwest Generation offsets net operating loss carryforwards against taxable income in the future, such tax benefits are accounted for as non-cash equity contributions from its parent at the time of use. Tax benefits recognized associated with net operating losses carrybacks that are not paid under the Midwest Generation Tax Allocation Agreement are accounted for as non-cash distributions to the parent company.

Midwest Generation accounts for deferred income taxes using the asset-and-liability method, wherein deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities using enacted income tax rates. In evaluating the realization of deferred income tax assets, Midwest Generation must determine whether it is more likely than not it would utilize its own deferred income tax assets in a hypothetical tax return prepared on a separate company basis. As a result, as of December 31, 2013 and 2012, Midwest Generation recorded a valuation allowance on its net deferred tax assets of $767 million and $533 million, respectively. For further information regarding the valuation allowance, see Note 7 Income Taxes.

Also, while Midwest Generation is generally subject to separate return limitations for net losses, under the Midwest Generation Tax Allocation Agreement it is permitted to transfer to Edison Mission Midwest Holdings, or its subsidiaries, net operating loss benefits or other current or deferred tax attributions, which would not yet be realized in a separate return in exchange for a reduction in Midwest Generation's intercompany account balances (including subordinated loans). Differences between amounts recorded in tax provision based on a hypothetical tax return prepared on a separate company basis and the amount of cash expected to be paid or received through the Midwest Generation Tax Allocation Agreement are recorded to equity.

Under the Acquisition Agreement, prior to the closing date, Midwest Generation may reorganize into a single-member limited liability corporation, in which case it will become a disregarded entity for tax purposes and its existing income tax attributes will accumulate to EME. Under the Settlement Agreement, the EME Tax Attributes will be retained by the EIX consolidated tax group.

Interest income, interest expense and penalties associated with income taxes are reflected in benefit for income taxes on Midwest Generation's consolidated statements of operations.

Note 1. Summary of Significant Accounting Policies (EME and Midwest Generation, except as noted) (Continued)

New Accounting Guidance

Accounting Guidance Adopted in 2013

Offsetting Assets and Liabilities

In December 2011 and December 2012, the Financial Accounting Standards Board (FASB) issued accounting standards updates modifying the disclosure requirements about the nature of an entity's rights of offsetting assets and liabilities in the consolidated balance sheet under master netting agreements and related arrangements associated with financial and derivative instruments. The guidance requires increased disclosure of the gross and net recognized assets and liabilities, collateral positions, and narrative descriptions of setoff rights. EME and Midwest Generation adopted this guidance effective January 1, 2013.

Presentation of Items Reclassified out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued an accounting standards update which requires disclosure related to items reclassified out of accumulated other comprehensive income (AOCI). The guidance requires entities to present separately, for each component of other comprehensive income (OCI), current period reclassifications and the remainder of the current-period OCI. In addition, for certain current period reclassifications, an entity is required to disclose the effect of the item reclassified out of AOCI on the respective line item of net income. EME adopted this guidance effective January 1, 2013.

Accounting Guidance Not Yet Adopted

Joint and Several Liabilities

In February 2013, the FASB issued an accounting standard update which modifies the requirements for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires companies to measure these obligations as the sum of the amount the company has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. This guidance is effective for fiscal years beginning after December 31, 2013. EME and Midwest Generation do not expect this guidance to have a material impact on results of operations.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standard update which clarifies that a liability for an unrecognized tax benefit should be presented as a reduction of a deferred tax asset when settlement of the liability with the taxing authority results in the reduction of a net operating loss or tax credit carryforward. The requirement to record a non-cash settlement in a net manner does not affect EME and Midwest Generation's analysis of the realization of deferred tax assets. This guidance is effective for fiscal years beginning after December 31, 2013. EME and Midwest Generation do not expect this guidance to have a material impact on results of operations.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Property, Plant and Equipment (EME, Midwest Generation)

Property, plant and equipment consisted of the following:

	EME		Midwest Generation	
	December 31,		December 31,	
(in millions)	2013	2012	2013	2012
Land	$ 34	$ 36	$ 31	$ 32
Power plant facilities	4,453	4,612	$ 613	$ 1,293
Leasehold improvements	4	4		
Emission allowances	541	672	496	639
Construction in progress(1)	54	495	53	28
Equipment, furniture and fixtures	105	128	8	13
Plant and equipment under lease financing			1,333	1,333
	5,191	5,947	2,534	3,338
Less accumulated depreciation and amortization	1,314	1,431	1,011	1,260
Net property, plant and equipment	$ 3,877	$ 4,516	$ 1,523	$ 2,078

(1) Included $466 million at December 31, 2012 for EME's new gas and wind projects under construction.

The power sales agreements of certain EME wind projects qualify as operating leases pursuant to authoritative guidance on leases. The carrying amount and related accumulated depreciation of the property of these wind projects totaled $1.7 billion and $362 million, respectively, at December 31, 2013.

Property, plant and equipment for Midwest Generation includes leased properties pursuant to the Powerton and Joliet Sale Leaseback. Midwest Generation recorded amortization expense related to the leased facilities of $42 million for each of the three years ended December 31, 2013, 2012 and 2011. Accumulated amortization related to the leased facilities was $555 million and $514 million at December 31, 2013 and 2012 respectively.

For information on impairment charges relating to property, plant and equipment, see Note 13 Asset Impairments and Other Charges.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Property, Plant and Equipment (EME, Midwest Generation) (Continued)

Asset Retirement Obligations

EME

A reconciliation of the changes in EME's ARO liability is as follows:

	Years Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
Beginning balance	$ 80	$ 70	$ 47
Accretion expense	6	5	5
Revisions			(1)
Liabilities added	8	5	19
Ending balance	$ 94	$ 80	$ 70

EME has recorded AROs related to its new gas-fired peaker plant in connection with the commencement of commercial operations there, as well as its wind facilities due to site lease obligations to return the land to grade at the end of the respective leases. Wind-related AROs cover site reclamation and turbine and related facility dismantlement. The earliest settlement of any of these obligations is anticipated to be in 2019. However, the operation of an individual facility may impact the timing of the ARO for that facility. Decisions made in conjunction with each facility's operation could extend or shorten the anticipated life depending on improvements and other factors.

Midwest Generation

A reconciliation of the changes in Midwest Generation's ARO liability is as follows:

	Years Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
Beginning balance	$ 2	$ 2	$ 2
Accretion expense			1
Revisions			(1)
Ending balance	$ 2	$ 2	$ 2

Midwest Generation has conditional AROs related to asbestos removal and disposal costs for owned buildings and power plant facilities. Midwest Generation has not recorded a liability related to these structures because they cannot reasonably estimate the obligation's fair value at this time. The range of time over which Midwest Generation may settle these obligations in the future (demolition or other method) is sufficiently large to not allow for the use of expected present value techniques. At December 31, 2013, Midwest Generation had assets with a fair value of $4 million that were legally restricted for purposes of settling AROs.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Variable Interest Entities (EME only)

Description of Use of VIEs

EME and its subsidiaries and affiliates have used VIEs as part of joint development agreements and constructing or acquiring full or partial interests in power generation facilities and ancillary facilities, referred to by EME as a project. EME's subsidiaries and affiliates have financed the development and construction or acquisition of its projects by capital contributions from EME and the incurrence of debt or lease obligations by its subsidiaries and affiliates owning the operating facilities. These project level debt or lease obligations are generally secured by project specific assets and structured as nonrecourse to EME, with several exceptions, including EME's guarantee provided as part of the Powerton and Joliet Sale Leaseback.

Categories of VIEs

Projects or Entities that are Consolidated

At December 31, 2013 and December 31, 2012, EME consolidated 16 and 15 projects, respectively, that have noncontrolling interests held by others. These projects have a total generating capacity of 958 megawatts (MW) and 878 MW, respectively. The increase in the number of consolidated projects was due to the sale of an indirect equity interest in the Broken Bow I wind project, discussed below under Capistrano Wind Equity Capital. In determining that EME was the primary beneficiary of the projects that are consolidated, key factors considered were EME's ability to direct commercial and operating activities and EME's obligation to absorb losses of the variable interest entities.

EME's summarized financial information for consolidated projects consisted of the following:

(in millions)	December 31, 2013	December 31, 2012
Current assets	$ 70	$ 74
Net property, plant and equipment	1,187	1,117
Other long-term assets	112	90
Total assets	$ 1,369	$ 1,281
Current liabilities	$ 43	$ 50
Long-term debt net of current portion	214	186
Deferred revenues	152	156
Long-term derivative liabilities	12	23
Other long-term liabilities	47	40
Total liabilities	$ 468	$ 455
Noncontrolling interests	$ 382	$ 288

Assets serving as collateral for the debt obligations had a carrying value of $609 million and $497 million at December 31, 2013 and December 31, 2012, respectively, and primarily consist of property, plant and equipment. The debt obligations are nonrecourse to EME. The consolidated statements of operations and cash flows for the years ended December 31, 2013 and 2012 includes $10 million and $29 million of pre-tax losses, respectively, and $59 million and $75 million of operating cash flows, respectively, related to VIEs that are consolidated.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Variable Interest Entities (EME only) (Continued)

Capistrano Wind Equity Capital

In February 2012, Edison Mission Wind Inc. (Edison Mission Wind) sold its indirect equity interests in the Cedro Hill wind project (150 MW in Texas), the Mountain Wind Power I wind project (61 MW in Wyoming) and the Mountain Wind Power II wind project (80 MW in Wyoming) to a new venture, Capistrano Wind Partners. Outside investors provided $238 million of the funding and Mission Energy Holding Company (MEHC) made a $4 million preferred investment. In December 2012, Edison Mission Wind sold its indirect equity interest in the Crofton Bluffs wind project (40 MW in Nebraska) to Capistrano Wind Partners for $58 million. Outside investors provided $46 million of the funding. In January 2013, Edison Mission Wind sold its indirect equity interest in the Broken Bow I wind project (80 MW in Nebraska) to Capistrano Wind Partners for $112 million. Outside investors provided $94 million of the funding.

Through their ownership of Capistrano Wind Holdings, an indirect subsidiary of EME, Edison Mission Wind, and EME's parent company, MEHC, own 100% of the Class A equity interests in Capistrano Wind Partners, and the Class B preferred equity interests are held by outside investors. In the event that Edison Mission Wind is no longer included in the consolidated income tax returns of EIX, MEHC's equity interest converts to common stock such that Capistrano Wind Holdings would remain included in the EIX consolidated tax group. The closing of the NRG Sale would trigger the provisions to increase MEHC's holding of Capistrano Wind Holdings' common stock. For additional information, see Note 7 Income Taxes and Note 16 Restructuring Activities NRG Sale.

Under the terms of the Capistrano Wind Holdings formation documents, preferred equity interests receive 100% of the cash available for distribution, up to a scheduled amount to target a certain return and thereafter cash distributions are shared. Cash available for distribution includes 90% of the tax benefits realized by MEHC and contributed to Capistrano Wind Partners.

Edison Mission Wind retains indirect beneficial ownership of the common equity in the projects, net of MEHC's preferred investment, and retains responsibilities for managing the operations of Capistrano Wind Partners and its projects. Accordingly, EME consolidates these projects. The $378 million contributed by the third-party interests and the $4 million preferred investment made by MEHC are reflected in noncontrolling interests on EME's consolidated balance sheet at December 31, 2013. The transactions between Edison Mission Wind and Capistrano Wind Partners were accounted for as a transfer among entities under common control and, therefore, resulted in no change in the book basis of the transferred assets. However, the transaction did trigger a taxable gain and new tax basis in the assets with a corresponding adjustment to deferred taxes and a reduction to equity of $21 million.

Projects that are not Consolidated

EME accounts for the majority of its investments in domestic gas and wind energy projects in which it has less than a 100% ownership interest, and does not have both the right to direct the commercial and operating activities and the obligation to absorb losses or receive benefits from the VIEs, under the equity method. As of December 31, 2013 and 2012, EME had significant variable interests in 5 natural gas projects that are not consolidated, consisting of the Big 4 Projects (Kern River, Midway-Sunset, Sycamore and Watson) and Sunrise. A subsidiary of EME operates 3 of the

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Variable Interest Entities (EME only) (Continued)

Big 4 Projects and Sunrise and EME's partner provides the fuel management services for the Big 4 Projects. In addition, the executive director of these gas projects is provided by EME's partner. Commercial and operating activities of these gas projects are jointly controlled by a management committee of each VIE. Accordingly, EME accounts for its variable interests in these projects under the equity method. The Kern River and Sycamore projects are subject to ongoing litigation in the Chapter 11 Cases. For additional information see Note 9 Commitments and Contingencies Chevron Adversary Proceedings.

The following table presents the carrying amount of EME's investments in unconsolidated VIEs and the maximum exposure to loss for each investment:

	December 31, 2013	
(in millions)	**Investment**	**Maximum Exposure**
Natural gas-fired projects	$ 325	$ 325
Wind projects	188	188

EME's exposure to loss in its VIEs accounted for under the equity method is generally limited to its investment in these entities. At December 31, 2013 and 2012, outstanding debt for projects that are not consolidated consisted of long-term debt that was secured by a pledge of project entity assets, but does not provide for recourse to EME. At December 31, 2013, such outstanding indebtedness was $25 million, of which $6 million was proportionate to EME's ownership in the project. At December 31, 2012, such outstanding indebtedness was $32 million, of which $8 million was proportionate to EME's ownership interest in the projects.

The following table presents summarized financial information of the investments in unconsolidated affiliates accounted for by the equity method:

	Years Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
Revenues	$ 754	$ 607	$ 769
Expenses	656	519	601
Net income	$ 98	$ 88	$ 168

	December 31,	
(in millions)	**2013**	**2012**
Current assets	$ 411	$ 337
Noncurrent assets	657	711
Total assets	$ 1,068	$ 1,048
Current liabilities	$ 120	$ 78
Noncurrent liabilities	72	82
Equity	876	888

Total liabilities and equity	$ 1,068	$ 1,048

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. Variable Interest Entities (EME only) (Continued)

The difference between the carrying value of these equity investments and the underlying equity in the net assets was $9 million at December 31, 2013. The difference is being amortized over the life of the projects. The majority of noncurrent liabilities are composed of project financing arrangements that are nonrecourse to EME. The undistributed earnings of equity method investments were $18 million and $19 million at December 31, 2013 and 2012, respectively.

The following table presents, as of December 31, 2013, the investments in unconsolidated affiliates accounted for by the equity method that represent at least 5% of EME's loss before tax, excluding asset impairment charges, or in which EME has an investment balance greater than $40 million:

Unconsolidated Affiliates	Location	Investment at December 31, 2013 (in millions)	Ownership Interest at December 31, 2013	Operating Status
San Juan Mesa	Elida, NM	$ 74	75%	Operating wind-powered facility
Elkhorn Ridge	Bloomfield, NE	81	67%	Operating wind-powered facility
Sunrise	Fellows, CA	174	50%	Operating gas-fired facility
Sycamore	Bakersfield, CA	48	50%	Operating cogeneration facility
Watson	Carson, CA	34	49%	Operating cogeneration facility

The following table presents summarized financial information of EME's investments in unconsolidated affiliates:

(in millions)	December 31, 2013	2012
Investments in Unconsolidated Affiliates		
Equity investments	$ 513	$ 527
Cost investments		7
Total	$ 513	$ 534

At December 31, 2012, EME had a 38% ownership interest in Covanta Huntington L.P., a small biomass project, that it accounted for under the cost method of accounting as it did not have a significant influence over the project's operating and financial activities. In January 2013, EME received $7.5 million for the sale of all of its indirect interest in the project.

At December 31, 2013 and 2012, EME accounted for its 80% interest in Doga Enerji (Doga) on the cost method as accumulated distributions exceeded accumulated earnings. EME has not estimated the fair value of cost method investments as quoted market prices are not available and the determination of fair value is highly subjective and cannot be readily ascertained.

Note 4. Fair Value Measurements (EME and Midwest Generation, except as noted)

Recurring Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (referred to as an "exit price"). Fair value of an asset or liability considers assumptions that market participants would

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (EME and Midwest Generation, except as noted) (Continued)

use in pricing the asset or liability, including assumptions about nonperformance risk, which was not material as of December 31, 2013 and December 31, 2012 for both EME and Midwest Generation.

Valuation Techniques Used to Determine Fair Value

Assets and liabilities are categorized into a three-level fair value hierarchy based on valuation inputs used to determine fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value of transfers in and out of each level is determined at the end of each reporting period.

Level 1

The fair value of Level 1 assets and liabilities is determined using unadjusted quoted prices in active markets that are available at the measurement date for identical assets and liabilities. This level includes exchange-traded derivatives and money market funds.

Level 2

The fair value of Level 2 assets and liabilities is determined using the income approach by obtaining quoted prices for similar assets and liabilities in active markets and inputs that are observable, either directly or indirectly, for substantially the full term of the instrument. This level includes over-the-counter derivatives and interest rate swaps.

Over-the-counter derivative contracts are valued using standard pricing models to determine the net present value of estimated future cash flows. Inputs to the pricing models include forward published or posted clearing prices from exchanges (New York Mercantile Exchange and Intercontinental Exchange) for similar instruments and discount rates. A primary price source that best represents trade activity for each market is used to develop observable forward market prices in determining the fair value of these positions. Broker quotes, prices from exchanges, or comparison to executed trades are used to validate and corroborate the primary price source. These price quotations reflect mid-market prices (average of bid and ask) and are obtained from sources believed to provide the most liquid market for the commodity.

Level 3

The fair value of Level 3 assets and liabilities is determined using the income approach through various models and techniques that require significant unobservable inputs. This level includes over-the-counter options and derivative contracts that trade infrequently, such as congestion revenue rights and long-term power agreements.

Assumptions are made in order to value derivative contracts in which observable inputs are not available. Changes in fair value are based on changes to forward market prices, including extrapolation of short-term observable inputs into forecasted prices for illiquid forward periods. In circumstances where fair value cannot be verified with observable market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. Modeling methodologies, inputs, and techniques are reviewed and assessed as markets continue to develop and more pricing information

EDISON MISSION ENERGY AND SUBSIDIARIES

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COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (EME and Midwest Generation, except as noted) (Continued)

becomes available. The fair value is adjusted when it is concluded that a change in inputs or techniques would result in a new valuation that better reflects the fair value of those derivative contracts.

EME

The following table sets forth EME's assets and liabilities that were accounted for at fair value by level within the fair value hierarchy:

	December 31, 2013				
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Netting and Collateral(1)**	**Total**
Assets at Fair Value					
Money market funds(2)	983	$	$	$	$ 983
Derivative contracts					
Electricity	$	$ 28	$ 33	$ (4)	$ 57
Interest rate		5			5
Total assets	$ 983	$ 33	$ 33	$ (4)	$ 1,045
Liabilities at Fair Value					
Derivative contracts					
Electricity	$	$	$ 1	$ (1)	$
Natural gas	1			(1)	
Interest rate		56			56
Total liabilities	$ 1	$ 56	$ 1	$ (2)	$ 56

	December 31, 2012				
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Netting and Collateral(1)**	**Total**
Assets at Fair Value					
Money market funds(2)	615	$	$	$	$ 615
Derivative contracts					
Electricity	$	$ 41	$ 52	$ (3)	$ 90

Total assets	$	615	$	41	$	52	$	(3)	$	705
Liabilities at Fair Value										
Derivative contracts										
Electricity	$		$	6	$	1	$	(7)	$	
Natural gas		3						(3)		
Interest rate				118						118
Total liabilities	$	3	$	124	$	1	$	(10)	$	118

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

(2) Money market funds are included in cash and cash equivalents on EME's consolidated balance sheets.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (EME and Midwest Generation, except as noted) (Continued)

Level 3 Valuation Process

The process of determining fair value of commodity derivative contracts is the responsibility of the risk department, which reports to the chief financial officer. This department obtains observable and unobservable inputs through broker quotes, exchanges, and internal valuation techniques and uses both standard and proprietary models to determine fair value. Each reporting period, the risk and key finance departments collaborate to determine the appropriate fair value methodologies and classifications for each derivative. Inputs are validated for reasonableness by comparison against prior prices, other broker quotes, and volatility fluctuation thresholds. Inputs used and valuations are reviewed period-over-period and compared with market conditions to determine reasonableness.

The following table sets forth the valuation techniques and significant unobservable inputs used to determine fair value for EME's Level 3 assets and liabilities:

	December 31, 2013					
	Fair Value (in millions)					
	Assets	Liabilities	Valuation Techniques	Significant Unobservable Input	Range	Weighted Average
Electricity						
Congestion contracts	$ 54	$ 21	Latest auction pricing	Congestion prices	$(35.56) - $16.06	$ 0.08
Power contracts	4	5	Discounted cash flows	Power prices	$30.51 - $60.15	$ 36.86
Netting	(25)	(25)				
Total	$ 33	$ 1				

	December 31, 2012					
	Fair Value (in millions)					
	Assets	Liabilities	Valuation Techniques	Significant Unobservable Input	Range	Weighted Average
Electricity						
Congestion contracts	$ 71	$ 20	Latest auction pricing	Congestion prices	$(8.93) - $18.03	$ 0.19
Power contracts	2	2	Discounted cash flows	Power prices	$22.54 - $48.85	$ 39.62
Netting	(21)	(21)				
Total	$ 52	$ 1				

Level 3 Fair Value Sensitivity

For congestion contracts, generally, an increase (decrease) in congestion prices in the last auction relative to the contract price will increase (decrease) fair value. For power contracts, generally, an increase (decrease) in long-term forward power prices at illiquid locations relative to the contract price will increase (decrease) fair value.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (EME and Midwest Generation, except as noted) (Continued)

The following table sets forth a summary of changes in the fair value of EME's consolidated Level 3 net derivative assets and liabilities:

(in millions)	2013	2012
Fair value of net assets at beginning of period	$ 51	$ 83
Total realized/unrealized gains (losses)		
Included in earnings(1)	(11)	9
Included in AOCI(2)		1
Purchases	46	58
Settlements	(54)	(46)
Transfers out of Level 3		(54)
Fair value of net assets at end of period	$ 32	$ 51
Change during the period in unrealized gains (losses) related to assets and liabilities held at end of period(1)	$ (2)	$ 22

(1) Reported in operating revenues on EME's consolidated statements of operations.

(2) Included in reclassification adjustments in EME's consolidated statement of OCI.

There were no transfers between levels during 2013 and no transfers between Level 1 and Level 2 during 2012. Significant transfers out of Level 3 into Level 2 occurred in the first quarter of 2012 due to significant observable inputs becoming available as the transactions neared maturity.

Fair Value of Long-term Debt

The carrying amounts and fair values of EME's long-term debt were as follows:

	December 31, 2013		December 31, 2012	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	$ 1,494	$ 1,491	$ 1,056	$ 1,057

In assessing the fair value of EME's long-term debt, EME primarily uses quoted market prices, except for floating-rate debt for which the carrying amounts were considered a reasonable estimate of fair value. The fair value of EME's long-term debt is classified as Level 2.

The carrying amount of short-term debt at December 31, 2012 approximates fair value.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4. Fair Value Measurements (EME and Midwest Generation, except as noted) (Continued)

Midwest Generation

The following table sets forth Midwest Generation's assets and liabilities that were accounted for at fair value by level within the fair value hierarchy:

	December 31, 2013			
(in millions)	**Level 1**	**Level 2**	**Netting(1)**	**Total**
Assets at Fair Value				
Money market funds(2)	$ 101	$	$	$ 101
Total assets	$ 101	$	$	$ 101

	December 31, 2012			
(in millions)	**Level 1**	**Level 2**	**Netting(1)**	**Total**
Assets at Fair Value				
Money market funds(2)	75	$	$	$ 75
Derivative contracts				
Electricity	$	$ 2	$	$ 2
Total assets	$ 75	$ 2	$	$ 77
Liabilities at Fair Value				
Derivative contracts				
Electricity	$	$ 3	$	$ 3
Total liabilities	$	$ 3	$	$ 3

(1)

Represents the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

(2)
Money market funds are included in cash and cash equivalents on Midwest Generation's consolidated balance sheets.

Midwest Generation does not have any Level 3 assets and liabilities. There were no transfers between levels during 2013 and 2012.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Debt and Credit Agreements (EME only)

Debt

Debt with recourse to EME totaled $3.7 billion and is classified as part of liabilities subject to compromise (LSTC) as of December 31, 2013 and December 31, 2012. Nonrecourse debt, as summarized below, is debt whereby lenders rely on specific project assets to repay such obligations. The following table summarizes long-term debt (rates and terms as of December 31, 2013), excluding LSTC:

(in millions)	Current Rate(1)	Effective Interest Rate(2)	Maturity Date	December 31, 2013	December 31, 2012
Walnut Creek Energy Term Loan	2.50% LIBOR+2.25%	5.46%	May 2023	$ 417	$ 330
WCEP Holdings, LLC Term Loan	4.24% LIBOR+4.00%	7.63%	May 2023	53	52
Big Sky Wind, LLC Vendor financing loan	3.87% LIBOR+3.50%	3.87%	October 2014	231	222
High Lonesome Mesa, LLC Bonds	6.85% Fixed	6.85%	November 2017	65	69
American Bituminous Power Partners, L.P.(3) Bonds	0.05% Floating	0.05%	October 2017	39	46
Viento Funding II, Inc. Term Loan	3.10% LIBOR+2.75%	5.61%	July 2023	200	191
Tapestry Wind, LLC Term Loan	2.75% LIBOR+2.50%	4.51%	December 2021	201	210
Cedro Hill Wind, LLC Term Loan	3.38% LIBOR+3.13%	7.01%	December 2025	118	125
Laredo Ridge Term Loan	3.00% LIBOR+2.75%	5.90%	March 2026	69	71
Crofton Bluffs Wind, LLC Term Loan(4)	3.12% LIBOR+2.88%	5.37%	December 2027	26	27
Broken Bow Wind, LLC Term Loan(4)	3.12% LIBOR+2.88%	5.56%	December 2027	50	52
Others	Various	Various	Various	29	43
Total debt				$ 1,498	$ 1,438
Less: Short-term debt				4	382
Total long-term debt				1,494	1,056
Less: Current maturities of long-term debt				323	307
Long-term debt, net of current portion				$ 1,171	$ 749

(1) London Interbank Offered Rate (LIBOR)

(2) The effective rate at which interest expense is reflected in the financial statements after the consideration of the current rate of debt and any amounts subject to interest rate swaps. For further discussion, see Note 6 Derivative Instruments and Hedging Activities Interest Rate Risk Management.

(3) Principal payments are due annually through October 1, 2017. Interest rates are reset weekly based on current bond yields for similar securities. On October 1, 2013, American Bituminous Power Partners, L.P. (Ambit) made the required annual principal payment to bondholders by drawing on its line of credit. The current interest rate on this short-term debt is 5.25%. Ambit was unable to fully reimburse the draw down which is a potential event of default. However, Ambit and various counterparties, including the line of credit issuer, executed an agreement effective October 1, 2013 to waive any event of default.

(4) The interest rate swaps for this obligation expired in December 2013 and forward starting rate swaps became effective. For additional information, see Note 6 Derivative Instruments and Hedging Activities.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Debt and Credit Agreements (EME only) (Continued)

Long-term debt maturities at December 31, 2013, for the next five years are summarized as follows: $323 million in 2014, $93 million in 2015, $91 million in 2016, $141 million in 2017, and $91 million in 2018.

Chapter 11 Cases

The filing of the Chapter 11 Cases constitutes an event of default under various financing documents as summarized below.

Senior Notes

The filing of the Chapter 11 Cases may constitute an event of default under EME's senior notes and, as a result, the principal and interest due under these debt instruments are immediately due and payable. The creditors are stayed from taking any action as a result of the default under Section 362 of the Bankruptcy Code and the obligations related to the senior notes are recorded as part of LSTC. For additional information, see Note 16 Restructuring Activities.

Viento II Financing

In July 2013, EME completed, through its subsidiary, Viento Funding II, Inc., an amendment of its Viento II Financing, a nonrecourse financing of its interests in the Wildorado, San Juan Mesa and Elkhorn Ridge wind projects. The amendment increased the financing amount to $238 million, which included a $202 million 10-year partially amortizing term loan, a $27 million 7-year letter of credit facility and a $9 million 7-year working capital facility. Interest under the term loan accrues at LIBOR plus 2.75% initially with the rate increasing 0.25% on every fourth anniversary. EME reaffirmed the pledge of its interest in Viento Funding II, Inc. in connection with the amendment but is not a borrower or a guarantor. The amendment cured any possible event of default, and therefore the Viento Funding II debt was classified as a long-term liability on the consolidated balance sheets.

Viento Funding II terminated $78 million amortizing notional amount 3.415% interest rate swap agreements and entered into several tranches of new interest rate swap agreements to hedge the majority of exposure to fluctuations in interest rates. As a result of the termination, EME wrote off $4 million of unamortized deferred financing costs as a loss on early extinguishment of debt in the consolidated statements of operations. For additional information, see Note 6 Derivative Instruments and Hedging Activities Interest Rate Risk Management.

High Lonesome Financing

The filing of the Chapter 11 Cases constitutes an event of default under the documents governing the issuance of the Series 2010A and 2010B Bonds (the Bonds). In July 2013, the applicable bondholders granted a permanent waiver of default, subject to EME assuming the state production tax credit agreement in the Chapter 11 Cases. Pursuant to assumption and rejection procedures previously approved by the Bankruptcy Court, EME assumed the agreement effective as of July 15, 2013. As of December 31, 2013, there were $40 million and $25 million outstanding under the Series 2010A and Series 2010B Bonds, respectively, and $7 million of outstanding letters of credit.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Debt and Credit Agreements (EME only) (Continued)

Credit Facilities and Letters of Credit

During 2013, EME terminated its letter of credit facility with DNB Bank and, through its subsidiaries, completed new letter of credit facilities totaling $101 million. The new letter of credit facilities consist of $75 million at Edison Mission Wind, expiring April 30, 2016, $10 million at Mountain Wind Power LLC, expiring September 17, 2020 and $16 million at Mountain Wind Power II, LLC, expiring September 17, 2020. Through its subsidiaries, EME has a total letter of credit capacity of $292 million.

At December 31, 2013, EME's subsidiaries' had issued letters of credit aggregating $163 million supported by $22 million of cash collateral. The outstanding letters of credit were scheduled to expire as follows: $59 million in 2014, $17 million in 2017, $9 million in 2018, $27 million in 2020, $18 million in 2021, $13 million in 2022 and $20 million in 2023. Certain letters of credit are subject to automatic renewal provisions. Included in the outstanding letters of credit were $22 million issued in connection with the power purchase agreement with Southern California Edison Company (SCE), an affiliate of EME, under the Walnut Creek credit facility.

2012 Financings

Broken Bow I and Crofton Bluffs

Effective March 30, 2012, EME, through its subsidiaries, Broken Bow Wind, LLC (Broken Bow I) and Crofton Bluffs Wind, LLC (Crofton Bluffs), completed two nonrecourse financings of its interests in the Broken Bow I and Crofton Bluffs wind projects. The financings included construction loans totaling $79 million that were converted to 15-year amortizing term loans on December 21, 2012 and December 14, 2012 for Broken Bow I and Crofton Bluffs, respectively, $13 million of letter of credit facilities and $6 million of working capital facilities.

Interest under the term loans will accrue at LIBOR plus 2.88%, with the term loan rate increasing 0.13% after the third, sixth, ninth, and twelfth years. As of December 31, 2013, Broken Bow I and Crofton Bluffs have $50 million and $26 million outstanding under the term loans, respectively, and $10 million and $3 million of outstanding letters of credit, respectively.

2011 Financings

Tapestry Wind

In December 2011, EME, through its subsidiary, Tapestry Wind, LLC, completed a nonrecourse financing of its interests in the Taloga, Buffalo Bear and Pinnacle wind projects. The financing included a $214 million 10-year partially amortizing term loan, a $12 million 10-year debt service reserve letter of credit facility, an $8 million 10-year project letter of credit facility and an $8 million 10-year working capital facility. Interest under the term loans accrues at LIBOR plus 2.5% initially, with the rate increasing 0.13% on the fourth and eighth anniversary of the closing date.

A total of $97 million of cash proceeds received from the 10-year term loan was deposited into an escrow account as of December 2011 pending completion of the Pinnacle wind project. During 2012, certain neighbors of the Pinnacle wind project filed civil complaints alleging, among other things, that the noise emissions and shadow flicker from the Pinnacle wind farm constituted a nuisance and seeking

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Debt and Credit Agreements (EME only) (Continued)

compensatory damages, punitive damages and other equitable relief. During the fourth quarter of 2012, all of the civil complaints were settled and the escrowed loan proceeds were released to Tapestry Wind, LLC. At December 31, 2013, there was $201 million outstanding under the loan and $20 million of outstanding letters of credit.

Walnut Creek

In July 2011, EME completed, through two wholly owned subsidiaries, Walnut Creek Energy and WCEP Holdings, LLC, nonrecourse financings to fund construction of the Walnut Creek gas-fired project. The financings included floating rate construction loans totaling $495 million that converted to 10-year amortizing term loans in June 2013, which is when Walnut Creek started earning revenues under its long-term purchase power agreement.

Big Sky Turbine Financing

In October 2009, EME's subsidiary, Big Sky Wind, LLC (Big Sky), entered into turbine financing arrangements with the turbine manufacturer Suzlon Wind Energy Corporation (Suzlon) for wind turbine purchase obligations related to the 240 MW Big Sky wind project. The loan associated with the financing agreement has a five-year final maturity. However, the satisfaction of certain criteria, including project performance and absence of serial defects, may trigger earlier repayment. In September 2012, Suzlon sued Big Sky in New York federal court seeking a declaratory judgment that the early repayment provisions had been satisfied and that Big Sky should be required to repay the loan in full in February 2013. Big Sky answered Suzlon's complaint, denied the allegations and counterclaimed. The counterclaim alleged that certain serial defects existing in the turbine equipment supplied by Suzlon precluded application of the early repayment provisions. The litigation is still pending in New York federal court. The Big Sky loan is secured by a leasehold mortgage on the project's real property assets, a pledge of all other collateral of the Big Sky wind project, as well as a cash reserve account into which one-third of distributable cash flow, if any, of the Big Sky wind project is to be deposited on a monthly basis. The loan is also secured by pledges of Big Sky's direct and indirect ownership interests in the project, but is nonrecourse to EME. For further details regarding consolidated assets pledged as security for debt obligations, see Note 3 Variable Interest Entities.

As of December 31, 2013, there was $231 million outstanding under the vendor financing loan at an effective interest rate of 3.87%. EME has been in discussions with Suzlon regarding a potential sale of EME's interest in the Big Sky wind project in exchange for forgiveness of debt and other consideration. These discussions are ongoing and EME has not made any decisions with respect to a potential sale. As a result, Big Sky's long-lived assets, consisting of property, plant and equipment and deferred revenue, were evaluated for impairment under the Held for Use model of Accounting Standards Codification 360 *Property, Plant, and Equipment* (ASC 360). The probability weighted future undiscounted cash flows associated with this asset group exceeded its carrying value at December 31, 2013 and consequently no impairment has been recognized. If EME and Suzlon do agree upon a sale transaction under terms similar to those currently under discussion, EME would record a material loss. If EME and Suzlon do not agree upon a sale transaction, Big Sky will need to arrange alternative financing, if available, to repay the loan at maturity or reach agreement with the lender to extend the maturity date of the loan. EME does not intend to make an investment in the project and is under no

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Debt and Credit Agreements (EME only) (Continued)

obligation to do so. If a restructuring of the loan or a sale effort is unsuccessful, Suzlon may foreclose on the project resulting in a write-off of the entire investment in the project. At December 31, 2013, EME's investment in the Big Sky wind project consisted of assets of $447 million and liabilities of $369 million.

Debt Covenants

Certain project financings contain covenants and restriction requirements to meet certain financial ratios and reporting requirements. Distributions from projects are typically restricted if covenant requirements are not met. Key existing covenants of EME's non-debtor subsidiaries include:

Debt Service Coverage Ratio(1)	Covenant Level	Actual Performance as of December 31, 2013
High Lonesome	1.20 to 1.00	1.88(2)
Viento II	1.40 to 1.00	2.75
Tapestry Wind	1.20 to 1.00	1.48
Laredo Ridge	1.20 to 1.00	1.79
Cedro Hill	1.20 to 1.00	1.53
Broken Bow	1.20 to 1.00	1.67
Crofton Bluffs	1.20 to 1.00	2.23
Walnut Creek Energy(3)	1.20 to 1.00	N/A
WCEP Holdings, LLC(3)	2.50 to 1.00	N/A
Required reserve account balance(4)		
Ambit	Twenty million	Four million

(1) The Debt Service Coverage Ratio (DSCR) is typically calculated over a 12-month historical period and is individually defined for each borrowing in the applicable financing agreement, credit agreement, trust indenture, or other document governing the financing requirements.

(2) Calculated at October 31, 2013, the last payment date.

(3) Commercial operations started in the second quarter of 2013.

(4) Ambit is required to maintain funded reserve accounts primarily for debt servicing and maintenance costs. The underfunded reserve does not create an event of default under the loan but does restrict distributions from Ambit.

EME's non-debtor subsidiaries were in compliance with all of their debt covenants at December 31, 2013 except for the required reserve amount at Ambit. Accordingly, the net assets of Ambit are considered restricted. Restricted net assets are those that cannot be transferred to EME in the form of loans, advances, or cash dividends without the consent of third parties, typically lenders or partners. In addition to Ambit, EME also has partnership agreements which require partners' approval for distributions and financing agreements which require the minimum reserve or operating account funding levels. Net assets are considered restricted if distributions are dependent upon approval by EME's unaffiliated partners. At December 31, 2013, restricted net assets of EME's subsidiaries was $1.7 billion.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation)

EME and Midwest Generation use derivative instruments to reduce their exposure to market risks that arise from price fluctuations of electricity, capacity, fuel, emission allowances, transmission rights, and interest rates. The derivative financial instruments vary in duration, ranging from a few days to several years, depending upon the instrument. To the extent that EME and Midwest Generation do not use derivative instruments to hedge these market risks, the unhedged portions will be subject to the risks and benefits of spot market price movements.

Risk management positions may be designated as cash flow hedges or economic hedges, which are derivatives that are not designated as cash flow hedges. Economic hedges are accounted for at fair value on EME's and Midwest Generation's consolidated balance sheets as derivative assets or liabilities with offsetting changes recorded on the consolidated statements of operations. For derivative instruments that qualify for hedge accounting treatment, the fair value is recognized on EME's and Midwest Generation's consolidated balance sheets as derivative assets or liabilities with offsetting changes in fair value, to the extent effective, recognized in AOCI until reclassified into earnings when the related forecasted transaction occurs. The portion of a cash flow hedge that does not offset the change in the fair value of the transaction being hedged, which is commonly referred to as the ineffective portion, is immediately recognized in earnings. The results of derivative activities are recorded in cash flows from operating activities on the consolidated statements of cash flows.

Derivative instruments that are utilized by EME for trading purposes are measured at fair value and included on the consolidated balance sheets as derivative assets or liabilities, with offsetting changes recognized in operating revenues on the consolidated statements of operations.

Where EME's and Midwest Generation's derivative instruments are subject to a master netting agreement or contain collateral deposit requirements and the criteria of authoritative guidance are met, EME presents its derivative assets and liabilities on a net basis on its consolidated balance sheets. EME's and Midwest Generation's master netting agreements allow for the right of offset for contracts with physical settlement. They do not allow for cross commodity settlement unless all positions are liquidated.

Since EME's and Midwest Generation's credit ratings are below investment grade, EME and its subsidiaries have provided collateral in the form of cash and letters of credit for the benefit of derivative counterparties and brokers. The amount of margin and collateral deposits generally varies based on changes in fair value of the related positions. Future changes in power prices could expose EME and Midwest Generation to additional collateral postings.

EME's and Midwest Generation's approach to trading and risk management depends, in part, on the ability to use clearing brokers to enter into market transactions. As a result of their financial position, EME and Midwest Generation have limited access to enter into such transactions and have been subject to increased initial collateral and margin requirements. There is no assurance that EME and Midwest Generation will continue to be able to utilize clearing brokers. If EME and Midwest Generation become unable to utilize clearing brokers, they may seek to execute bilateral transactions with third parties which could be unavailable on commercially reasonable terms or at all.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

Notional Volumes of Derivative Instruments

The following table summarizes notional volumes of derivatives used for hedging and trading activities:

				December 31, 2013			
				Economic Hedges			Trading Activities
Commodity	**Instrument**	**Classification**	**Unit of Measure**	**Midwest Generation**	**Other EME Subsidiaries**	**EME**	**Other EME Subsidiaries**
Electricity	Forwards/Futures	Sales, net	GWh(1)	170	7	177(2)	
Electricity	Forwards/Futures	Purchases, net	GWh				1
Electricity	Congestion	Purchases, net	GWh		56	56(4)	262,188(4)

				December 31, 2012						
				Cash Flow Hedges			Economic Hedges			Trading Activities
Commodity	**Instrument**	**Classification**	**Unit of Measure**	**Midwest Generation**	**Other EME Subsidiaries**	**EME**	**Midwest Generation**	**Other EME Subsidiaries**	**EME**	**Other EME Subsidiaries**
Electricity	Forwards/Futures	Sales, net	GWh	3,615		3,615	1	47	48(2)	
Electricity	Forwards/Futures	Purchases, net	GWh							492
Electricity	Capacity	Purchases, net	GW-Day							60(3)
Electricity	Congestion	Purchases, net	GWh					263	263(4)	268,529(4)
Natural gas	Forwards/Futures	Purchase, net	bcf							9.9

(1) gigawatt-hours (GWh); gigawatts-day (GW-Day); billion cubic feet (bcf).

(2) These positions adjust financial and physical positions, or day-ahead and real-time positions, to reduce costs or increase gross margin. The net sales positions of these categories are primarily related to hedge transactions that are not designated as cash flow hedges.

(3) Hedge transactions for capacity result from bilateral trades. Capacity sold in the PJM Interconnection, LLC Reliability Pricing Model (PJM RPM) auction is not accounted for as a derivative.

(4) Congestion contracts include financial transmission rights, transmission congestion contracts or congestion revenue rights. These positions are similar to a swap, where the buyer is entitled to receive a stream of revenues (or charges) based on the hourly day-ahead price differences between two locations.

EME

Interest Rate Risk Management

EME mitigates the risk of interest rate fluctuations for a number of its project financings by arranging for fixed rate financing or variable rate financing with interest rate swaps, interest rate options, or other hedging mechanisms.

Through July 2013, as a result of the Chapter 11 Cases and the short-term forbearance agreements that had been executed with the lenders and the EME subsidiary borrowers, EME could no longer conclude it was probable that the future interest payments associated with the Viento

II Financing would occur. Accordingly, the cash flow hedges associated with these interest rate swaps were prospectively dedesignated. Unrealized gains of $6 million were recorded in interest expense on the consolidated statements of operations during the year ending December 31, 2013 from changes in the fair value of interest rate swaps. In conjunction with the amendment of the Viento II Financing in July 2013, EME entered into new interest rate swaps and re-designated the existing interest rate swaps as cash flow hedges. Interest rate swap termination fees of $6 million were recorded as reduction to

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

derivative liabilities on the consolidated balance sheets. For additional information, see Note 5 Debt and Credit Agreements.

The following table summarizes EME's interest rate swaps:

				Notional Value (in millions)	
	Effective Date	**Expiration Date**	**Fixed Swap Rate Paid**	**December 31, 2013**	**December 31, 2012**
Project Financing					
Viento Funding II	June 2009	June 2016	3.18%	48	65
Viento Funding II	March 2011	December 2020	3.42%	30	108
Viento Funding II	July 2013	July 2023	3.03%	103	
Cedro Hill	December 2010	December 2025	4.29%	106	112
Laredo Ridge	March 2011	March 2026	3.46%	62	64
Tapestry	December 2011	December 2021	2.21%	181	189
Broken Bow(1)	December 2012	December 2013	0.83%		47
Broken Bow(1)	December 2013	December 2027	2.96%	45	
Crofton Bluffs(1)	December 2012	December 2013	0.78%		24
Crofton Bluffs(1)	December 2013	December 2027	2.75%	23	
Walnut Creek Energy(2)	November 2011	May 2013	0.81%		181
Walnut Creek Energy(2)	June 2013	May 2023	3.54%	375	
WCEP Holdings(2)	July 2011	May 2013	0.79%		$ 26
WCEP Holdings(2)	June 2013	May 2023	4.00%	$ 48	
Forward Starting Swaps					
Tapestry	December 2021	December 2029	3.57%	60	60
Viento Funding II	July 2023	June 2028	4.99%	65	

(1) During the fourth quarter of 2013, the existing interest rate swaps for the Broken Bow and Crofton Bluffs projects expired and the forward starting swaps became effective.

(2) During the second quarter of 2013, the existing interest rate swaps for the Walnut Creek Project expired and, in conjunction with the conversion to term loans, the forward starting swaps became effective.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

Summary of Derivative Instruments

The following table summarizes EME's derivative instruments, including amounts offset by collateral and under master netting agreements:

	December 31, 2013						
(in millions)	Gross	Short Term Netting and Collateral	Subtotal	Gross	Long Term Netting and Collateral	Subtotal	Net
Assets							
Electricity contracts	$ 81	$ (37)	$ 44	$ 23	$ (10)	$ 13	$ 57
Natural gas contracts	47	(47)		4	(4)		
Total derivatives subject to a master netting agreement	128	(84)	44	27	(14)	13	57
Total derivatives not subject to a master netting agreement(1)				5		5	5
Total assets	128	(84)	44	32	(14)	18	62
Liabilities							
Electricity contracts	36	(36)		9	(9)		
Natural gas contracts	46	(46)		5	(5)		
Total derivatives subject to a master netting agreement	82	(82)		14	(14)		
Total derivatives not subject to a master netting agreement(1)				56		56	56
Total liabilities	$ 82	$ (82)	$	$ 70	$ (14)	$ 56	$ 56

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(1) EME's interest rate swaps are not subject to master netting agreements and do not require EME to post collateral.

December 31, 2012

(in millions)	Gross	Short Term Netting and Collateral	Subtotal	Gross	Long Term Netting and Collateral	Subtotal	Net
Assets							
Electricity contracts	120	(67)	53	52	(15)	37	90
Natural gas contracts	33	(33)		1	(1)		
Coal contracts	2	(2)					
Total assets	155	(102)	53	53	(16)	37	90
Liabilities							
Electricity contracts	71	(71)		15	(15)		
Natural gas contracts	36	(36)		1	(1)		
Coal contracts	2	(2)					
Total derivatives subject to a master netting agreement	109	(109)		16	(16)		
Total derivatives not subject to a master netting agreement(1)				118		118	118
Total liabilities	109	(109)		134	(16)	118	118

(1) EME's interest rate swaps are not subject to master netting agreements and do not require EME to post collateral.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

EME's subsidiaries have posted $71 million and $61 million cash margin in the aggregate with various counterparties at December 31, 2013 and December 31, 2012 respectively, to support hedging and trading activities. The cash margin posted is required by counterparties as an initial collateral deposit and cannot be offset against the fair value of open contracts except in the event of default. EME's exposure is composed of $43 million and $44 million of net accounts receivable at December 31, 2013 and December 31, 2012, respectively. For positions subject to a master netting agreement, EME is in a net asset position, and in the event of default, cash collateral would be returned to EME. EME did not have any collateral received from counterparties as of December 31, 2013 and December 31, 2012.

Income Statement Impact of Derivative Instruments

The following table provides the cash flow hedge activity as part of EME's AOCI:

	Years Ended December 31,			
	2013		2012	
(in millions)	Commodity Contracts	Interest Rate Contracts	Commodity Contracts	Interest Rate Contracts
Beginning of period derivative gains (losses)	(1)	(118)	35	(90)
Effective portion of changes in fair value	(2)	55	5	(28)
Reclassification to operating revenues	3		(41)	
Reclassification to interest expense		5		
End of period derivative gains (losses)(1)		(58)	(1)	(118)

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(1) Unrealized derivative gains (losses) are before income taxes. Amounts recorded in AOCI include commodity and interest rate contracts. For additional information, see Note 11 Accumulated Other Comprehensive Loss.

EME recorded losses of $1 million, none and $4 million in 2013, 2012 and 2011, respectively, in operating revenues on the consolidated statements of operations representing the amount of cash flow hedge ineffectiveness. EME also amortized $5 million of the deferred unrealized losses in AOCI related to the dedesignated Viento II interest rate hedge to interest expense on the consolidated statements of operations in 2013.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

The effect of realized and unrealized gains from derivative instruments used for economic hedging and trading purposes on the consolidated statements of operations is presented below:

		Years Ended December 31,	
(in millions)	**Income Statement Location**	**2013**	**2012**
Economic hedges	Operating revenues	$ (9)	$ 31
	Fuel		2
	Interest expense, net	6	
Trading activities	Operating revenues	75	68

Midwest Generation

Summary of Derivative Instruments

The following table summarizes Midwest Generation's commodity short-term derivative instruments for non-trading purposes, including amounts offset by collateral and under master netting agreements:

	December 31, 2013			December 31, 2012		
(in millions)	**Gross**	**Netting and Collateral**	**Net**	**Gross**	**Netting and Collateral**	**Net**
Assets						
Electricity contracts	$ 1	$ (1)	$	$ 12	$ (10)	$ 2
Liabilities						
Electricity contracts	1	(1)		13	(10)	3

Midwest Generation does not have any long-term derivative assets and liabilities at December 31, 2013 and December 31, 2012

The following table provides the cash flow hedge activity as part of Midwest Generation's AOCI:

	Years Ended December 31,	
(in millions)	**2013**	**2012**
Beginning of period derivative gains (losses)	(2)	34
Effective portion of changes in fair value	(2)	7
Reclassification to operating revenues	4	(43)
End of period derivative gains (losses)(1)		(2)

(1) Unrealized derivative gains (losses) are before income taxes. Amounts recorded in AOCI include commodity contracts. For additional information, see Note 11 Accumulated Other Comprehensive Loss.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

Midwest Generation recorded net gains (losses) of $(1) million, none and $4 million in 2013, 2012 and 2011, respectively, in operating revenues on the consolidated statements of operations representing the amount of cash flow hedge ineffectiveness.

The effect of realized and unrealized gains from derivative instruments used for non-trading purposes on the consolidated statements of operations is presented below:

		Years Ended December 31,	
(in millions)	**Income Statement Location**	**2013**	**2012**
Economic hedges	Operating revenues	$ (9)	$ 31
	Fuel		2

Energy Trading Derivative Instruments (EME only)

The change in the fair value of energy trading derivative instruments was as follows:

(in millions)	**2013**	**2012**
Fair value of trading contracts at beginning of period	$ 84	$ 107
Net gains from energy trading activities	75	68
Amount realized from energy trading activities	(88)	(93)
Other changes in fair value	(12)	2
Fair value of trading contracts at end of period	$ 59	$ 84

Commodity Price Risk Management

EME's and Midwest Generation's merchant operations are exposed to commodity price risk, which reflects the potential impact of a change in the market value of a particular commodity. Commodity price risks are actively monitored, with oversight provided by a risk management committee, to ensure compliance with EME's risk management policies. EME uses estimates of the variability in gross margin to help identify, measure, monitor and control its overall market risk exposure and earnings volatility with respect to hedge positions at the coal plants and the merchant wind projects, and uses "value at risk" metrics to help identify, measure, monitor and control its overall risk exposure in respect to its trading positions. These measures allow management to aggregate overall commodity risk, compare risk on a consistent basis and identify changes in risk factors. Value at risk measures the possible loss, and variability in gross margin measures the potential change in value, of an asset or position, in each case over a given time interval, under normal market conditions, at a given confidence level. Given the inherent limitations of these measures and reliance on a single type of risk measurement tool, EME supplements these approaches with the use of stress testing and worst-case scenario analysis for key risk factors, as well as stop-loss triggers and volumetric exposure limits. When appropriate, EME manages the spread between the electric prices and fuel prices, and uses forward contracts, swaps, futures, or options contracts to achieve those objectives.

Note 6. Derivative Instruments and Hedging Activities (EME, Midwest Generation) (Continued)

Credit Risk

In conducting EME's hedging and trading activities and Midwest Generation's marketing activities, EMMT enters into transactions with utilities, energy companies, financial institutions, and other companies, collectively referred to as counterparties. In the event a counterparty were to default on its trade obligation, EME and Midwest Generation would be exposed to the risk of possible loss associated with market price changes occurring since the original contract was executed if the nonperforming counterparty were unable to pay the resulting damages owed to EME or Midwest Generation. Midwest Generation's agreement with EMMT transfers the risk of non-payment of accounts receivable from counterparties to EMMT; therefore, EMMT would be exposed to the risk of non-payment of accounts receivable accrued for products delivered prior to the time a counterparty defaulted.

Credit risk is measured as the loss that EME would expect to incur if a counterparty failed to perform pursuant to the terms of its contractual obligations. To manage credit risk, EME evaluates the risk of potential defaults by counterparties. To mitigate credit risk from counterparties, master netting agreements are used whenever possible and counterparties may be required to pledge collateral when deemed necessary.

The majority of EME's consolidated wind projects and unconsolidated affiliates that own power plants sell power under power purchase agreements. Generally, each project or plant sells its output to one counterparty. A default by the counterparty, including a default as a result of a bankruptcy, would likely have a material adverse effect on the operations of the project or plant.

The majority of the coal for the Midwest Generation plants is purchased from suppliers under contracts which may be for multiple years. None of the coal suppliers to the coal plants have investment grade credit ratings and, accordingly, Midwest Generation may have limited recourse to collect damages in the event of default by a supplier.

The Midwest Generation plants sell electric power generally into the PJM market by participating in PJM's capacity and energy markets or transacting in capacity and energy on a bilateral basis. Sales into PJM accounted for 100%, 92% and 81% of Midwest Generation's consolidated operating revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Sales into PJM accounted for approximately 62%, 64% and 63% of EME's consolidated operating revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Moody's Investors Service, Inc. (Moody's) rates PJM's debt Aa3. PJM, a regional transmission organization (RTO) with over 300 member companies, maintains its own credit risk policies and does not extend unsecured credit to non-investment grade companies. Losses resulting from a PJM member default are shared by all other members using a predetermined formula. At December 31, 2013 and 2012, EME's account receivable due from PJM was $32 million and $40 million, respectively.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Income Taxes (EME, Midwest Generation)

EME

Income Tax Expense (Benefit)

The provision (benefit) for income taxes is composed of the following:

	Years Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
Continuing Operations			
Current			
Federal	$	$	$ 48
State			(44)
Total current			4
Deferred			
Federal	$ (33)	$ 26	$ (389)
State	(60)	134	(56)
Total deferred	(93)	160	(445)
Provision (benefit) for income taxes from continuing operations	(93)	160	(441)
Discontinued operations	6	(73)	(411)
Total	$ (87)	$ 87	$ (852)

The components of income (loss) before income taxes applicable to continuing operations and discontinued operations are as follows:

	Years Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
Continuing operations	$ (735)	$ (637)	$ (888)
Discontinued operations	7	(185)	(1,043)
Total	$ (728)	$ (822)	$ (1,931)

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Income Taxes (EME, Midwest Generation) (Continued)

Deferred Tax Assets and Liabilities

The components of net accumulated deferred income tax asset (liability) were:

(in millions)	December 31, 2013	December 31, 2012
Deferred tax assets		
Accrued charges and liabilities	$ 232	$ 234
Net operating loss carryforwards	1,202	841
Production tax and other credit carryforwards	332	254
Derivative instruments	15	49
Other	5	6
Total	1,786	1,384
Valuation allowance	(752)	(444)
Net deferred tax assets	1,034	940
Deferred tax liabilities		
Property, plant and equipment basis differences	$ 1,069	$ 989
Deferred investment tax credit	4	4
State taxes	19	28
Total	1,092	1,021
Deferred tax liabilities, net	$ (58)	$ (81)
Classification of net accumulated deferred income taxes		
Included in deferred taxes and tax credits, net	$ 58	$ 81

Valuation Allowance

Historically, EME participated in tax-allocation agreements with EIX in which EME would be eligible to receive payments from EIX for tax losses and credits generated by EME. During 2012, EIX modified the tax-allocation agreements to terminate EME's participation on December 31, 2013. Termination does not relieve any party of any obligations with respect to any tax year beginning prior to the year of termination. As a result, as of December 31, 2013 and 2012, EME recorded a valuation allowance on its net deferred tax assets of $752 million and $444 million, respectively. The net increase during 2013 of $308 million was due to the accumulation of unpaid tax benefits related to net operating losses and production tax credits and $167 million related to an asset impairment charge on the Will County Station recorded during the third quarter of 2013. In 2012, $438 million of the valuation allowance was recorded to net loss on the consolidated statements of operations and $6 million was reflected in accumulated other comprehensive loss. Upon the effectiveness of the Settlement Agreement, EME would expect to reverse the valuation allowance it has recorded. For additional information, see Note 16 Restructuring Plan of Reorganization.

At December 31, 2013 amounts included in other long-term assets, payables to affiliates, and other long-term liabilities associated with the tax-allocation agreements were $31 million, $15 million and $6 million, respectively. At December 31, 2012, amounts included in other long-term assets, payables to

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Income Taxes (EME, Midwest Generation) (Continued)

affiliates and other long-term liabilities associated with the tax-allocation agreements were $18 million, $33 million and $21 million, respectively.

Net Operating Loss and Federal Tax Credit Carryforwards

At December 31, 2013, EME had $3,226 million of federal net operating loss carryforwards which expire between 2031 and 2033 and $2,106 million of state net operating loss carryforwards which expire between 2022 and 2033, if unused. Additionally, there were $332 million of federal tax credit carryforwards of which $317 million expire between 2029 and 2033, if unused, and the remainder have no expiration date. Included in net operating loss carryforwards were excess tax benefits that had not been generated by EME. Accordingly, EME recorded a $27 million non-cash income tax benefit offset by an equal valuation allowance during the fourth quarter of 2013.

In addition, at December 31, 2012, EME recorded a non-cash distribution to its parent of $222 million related to tax benefits for which, under the tax-allocation agreements as applied, EME has not yet, and may never be, entitled to be paid. During 2013, in connection with EIX's finalization of their 2012 consolidated tax returns, EME recorded a net non-cash contribution from EIX of $25 million related to tax benefits which EME had previously believed would be utilized in the EIX consolidated tax return on a statutory basis but would not be paid under the tax-allocation agreements. In addition, EME received a net tax-allocation payment from EIX of approximately $12 million as a partial payment for tax benefits previously recorded as non-cash distributions. At December 31, 2013, EME has not yet, and may never be, entitled to be paid for the $185 million remaining as a non-cash distribution to its parent. In addition, EME has not yet, and may never be, paid for the approximately $1,435 million of tax benefits generated by EME which have not yet been utilized in the EIX consolidated tax return. Under the Settlement Agreement, EIX will pay the Reorganization Trust amounts equal to 50% of the EME Tax Attributes. For additional information, see Note 16 Restructuring Plan of Reorganization.

Capistrano Wind Holdings and Capistrano Wind, LLC, which still participate in tax-allocation agreements with EIX, have generated $126 million of tax benefits, $27 million of which has been used by the EIX consolidated tax group, for all of which either payment has been received or payment is expected to be received under the tax-allocation agreements.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Income Taxes (EME, Midwest Generation) (Continued)

Effective Tax Rate

The table below provides a reconciliation of income tax expense (benefit) computed at the federal statutory income tax rate to the income tax provision (benefit):

(in millions)	Years Ended December 31, 2013	2012	2011
Loss from continuing operations before income taxes	$ (735)	$ (637)	$ (888)
Benefit for income taxes at federal statutory rate of 35%	$ (257)	$ (223)	$ (311)
Increase (decrease) in income tax from			
State tax net of federal benefit	(32)	11	(56)
Excess losses over tax allocation losses	(27)		
Change in valuation allowance	308	438	
Production tax credits, net	(79)	(68)	(66)
Qualified production deduction			(6)
Deferred tax adjustments	1		(8)
Taxes on income allocated to noncontrolling interests	(10)	(4)	
Other	3	6	6
Total provision (benefit) for income taxes from continuing operations	$ (93)	$ 160	$ (441)
Effective tax rate	13%	*	50%

* Not meaningful.

Estimated state income tax benefits allocated from EIX of $5 million, $3 million and $6 million were recognized for the years ended December 31, 2013, 2012 and 2011, respectively. In the fourth quarter of 2012, EME's state tax benefit was reduced by a change in future state apportionment factors resulting from EME's exit from the EIX consolidated tax group.

Accounting for Uncertainty in Income Taxes

Unrecognized Tax Benefits

The following table provides a reconciliation of unrecognized tax benefits:

(in millions)	2013	2012	2011
Balance at January 1	$ 159	$ 171	$ 153
Tax positions taken during the current year			

Increases			9
Decreases			
Tax positions taken during a prior year			
Increases			9
Decreases		(12)	
Decreases for settlements during the period			
Decreases resulting from a lapse in statute of limitations			
Balance at December 31	$ 159	$ 159	$ 171

Note 7. Income Taxes (EME, Midwest Generation) (Continued)

As of December 31, 2013 and 2012, $154 million of the unrecognized tax benefits, if recognized, would impact the effective tax rate. EME believes that it is reasonably possible that unrecognized tax benefits could be reduced by an amount up to $66 million within the next 12 months as a result of settling the audit for tax years 2003 through 2006.

EIX's federal income tax returns and California combined franchise tax returns are currently open for years subsequent to 2002. In addition, specific California refund claims made by EIX for years 1991 through 2002 remain subject to audit.

Accrued Interest and Penalties

The total amount of accrued interest and penalties related to EME's income tax liabilities was $76 million and $65 million as of December 31, 2013 and 2012, respectively.

The net after-tax interest and penalties recognized in income tax expense was $6 million, $8 million and $10 million for 2013, 2012 and 2011, respectively.

Tax Dispute

The Internal Revenue Service examination phase of tax years 2003 through 2006 was completed in the fourth quarter of 2010, which included a proposed adjustment related to EME. The proposed adjustment increases the taxable gain on the 2004 sale of EME's international assets, which if sustained, would result in a federal tax payment of approximately $207 million, including approximately $59 million of interest and $42 million in penalties through December 31, 2013. EME disagrees with the proposed adjustment and filed a protest with the Internal Revenue Service in the first quarter of 2011. During the fourth quarter of 2013, the Internal Revenue Service advised EME that it intends to issue technical advice adverse to EME supporting the proposed adjustment by Internal Revenue Service examination increasing the taxable gain on the 2004 sale of EME's international assets (the technical advice adverse to EME was received in February 2014). The technical advice did not address penalties. EME is continuing to protest the asserted penalty with Internal Revenue Service Appeals. EME anticipates that the Internal Revenue Service will issue a deficiency notice for the tax, interest and possibly penalties related to this issue at the conclusion of the Internal Revenue Service appeals process. After the receipt of such deficiency notice, EME will have 90 days to file a petition in Unites States Tax Court. If a petition is not timely filed, EME anticipates after the expiration of the 90-day period, the Internal Revenue Service will assess the underpayment of tax, interest and penalties, if any, and demand payment. Under the Settlement Agreement, this liability along with the rest of the EME Tax Attributes will be retained by the EIX consolidated tax group. For additional information, see Note 16 Restructuring Plan of Reorganization.

Tax Election at Homer City

On March 15, 2012, Homer City made an election to be treated as a partnership for federal and state income tax purposes. As a result of this election, Homer City is treated for tax purposes as distributing its assets and liabilities to its partners, both of which are wholly owned subsidiaries of EME, and triggering tax deductions of approximately $1 billion. Such tax deductions were included in EIX's 2011 consolidated tax returns.

EDISON MISSION ENERGY AND SUBSIDIARIES

MIDWEST GENERATION, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7. Income Taxes (EME, Midwest Generation) (Continued)

Midwest Generation

Income Tax Benefit

The benefit for income taxes is composed of the following:

	Years Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
Current			
Federal	$	$	$