Talen Energy Corporation
Condensed Consolidated Financial Statements
For the Period Ended September 30, 2023

TALEN ENERGY™

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Millions of Dollars, except share data)	Three Months Ended Successor September 30, 2023	Three Months Ended Predecessor September 30, 2022	Successor May 18 through September 30, 2023	Predecessor January 1 through May 17, 2023	Predecessor Nine Months Ended September 30, 2022
Capacity revenues	$ 44	$ 82	$ 70	$ 108	$ 329
Energy and other revenues	600	763	788	1,042	1,420
Unrealized gain (loss) on derivative instruments	(128)	81	(41)	60	265
Operating Revenues	**516**	**926**	**817**	**1,210**	**2,014**
Energy Expenses					
Fuel and energy purchases	(253)	(325)	(310)	(176)	(742)
Nuclear fuel amortization	(47)	(23)	(72)	(33)	(70)
Unrealized gain (loss) on derivative instruments	44	26	(2)	(123)	48
Total Energy Expenses	**(256)**	**(322)**	**(384)**	**(332)**	**(764)**
Operating Expenses					
Operation, maintenance and development	(140)	(131)	(209)	(285)	(448)
General and administrative	(37)	(18)	(55)	(51)	(77)
Depreciation, amortization and accretion	(66)	(126)	(94)	(200)	(396)
Impairments	(2)	—	(2)	(381)	—
Operational restructuring	—	—	—	—	(447)
Other operating income (expense), net	(8)	—	(11)	(37)	(17)
Operating Income (Loss)	**7**	**329**	**62**	**(76)**	**(135)**
Nuclear decommissioning trust funds gain (loss), net	(24)	(42)	15	57	(233)
Interest expense and other finance charges	(68)	(88)	(101)	(163)	(260)
Reorganization income (expense), net	—	(385)	—	799	(716)
Consolidation of subsidiary gain (loss)	—	(170)	—	—	(170)
Other non-operating income (expense), net	(7)	—	(18)	60	(44)
Income (Loss) Before Income Taxes	**(92)**	**(356)**	**(42)**	**677**	**(1,558)**
Income tax benefit (expense)	16	56	(3)	(212)	104
Net Income (Loss)	**(76)**	**(300)**	**(45)**	**465**	**(1,454)**
Less: Net income (loss) attributable to noncontrolling interest	1	—	3	(14)	—
Net Income (Loss) Attributable to Stockholders (Successor) / Member (Predecessor)	**$ (77)**	**$ (300)**	**$ (48)**	**$ 479**	**$ (1,454)**
Per Common Share (Successor)					
Net Income (Loss) Attributable to Stockholders - Basic	$ (1.30)	N/A	$ (0.81)	N/A	N/A
Net Income (Loss) Attributable to Stockholders - Diluted	$ (1.30)	N/A	$ (0.81)	N/A	N/A
Weighted-Average Number of Common Shares Outstanding - Basic (in thousands)	59,029	N/A	59,029	N/A	N/A
Weighted-Average Number of Common Shares Outstanding - Diluted (in thousands)	59,029	N/A	59,029	N/A	N/A

The accompanying Notes to the Interim Financial Statements are an integral part of the financial statements.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
(Millions of Dollars)	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Net Income (Loss)	**$ (76)**	**$ (300)**	**$ (45)**	**$ 465**	**$ (1,454)**
Other Comprehensive Income (Loss)					
Available-for-sale securities unrealized gain (loss), net	(20)	(21)	(26)	6	(75)
Income tax benefit (expense)	7	8	9	(2)	30
Gains (losses) arising during the period, net of tax	(13)	(13)	(17)	4	(45)
Available-for-sale securities unrealized (gain) loss, net	6	5	7	4	28
Qualifying derivatives unrealized (gain) loss, net	—	(1)	—	(1)	(2)
Postretirement benefit prior service (credits) costs, net	—	1	—	—	1
Postretirement benefit actuarial (gain) loss, net	—	7	—	2	20
Income tax (benefit) expense	(2)	(3)	(2)	(3)	(16)
Reclassifications from AOCI, net of tax	4	9	5	2	31
Total Other Comprehensive Income (Loss)	**(9)**	**(4)**	**(12)**	**6**	**(14)**
Comprehensive Income (Loss)	**(85)**	**(304)**	**(57)**	**471**	**(1,468)**
Less: Comprehensive income (loss) attributable to noncontrolling interest	1	—	3	(14)	—
Comprehensive Income (Loss) Attributable to Stockholders (Successor) / Member (Predecessor)	**$ (86)**	**$ (304)**	**$ (60)**	**$ 485**	**$ (1,468)**

The accompanying Notes to the Interim Financial Statements are an integral part of the financial statements.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Millions of Dollars. except share data)	Successor September 30, 2023	Predecessor December 31, 2022
Assets		
Cash and cash equivalents	$ 244	$ 724
Restricted cash and cash equivalents	520	264
Accounts receivable, net	168	408
Inventory, net	298	457
Derivative instruments	76	2,165
Other current assets	123	247
Total current assets	**1,429**	**4,265**
Property, plant and equipment, net	3,846	4,705
Nuclear decommissioning trust funds	1,456	1,400
Derivative instruments	1	228
Other noncurrent assets	160	124
Total Assets	**$ 6,892**	**$ 10,722**
Liabilities and Equity		
Revolving credit facilities	$ —	$ 848
Long-term debt, due within one year	12	1,010
Accrued interest	69	278
Accounts payable and other accrued liabilities	289	454
Derivative instruments	69	1,927
Other current liabilities	85	346
Total current liabilities	**524**	**4,863**
Long-term debt	2,823	2,494
Liabilities subject to compromise	—	2,825
Derivative instruments	11	363
Postretirement benefit obligations	334	—
Asset retirement obligations and accrued environmental costs	452	567
Deferred income taxes	346	75
Other noncurrent liabilities	44	17
Total Liabilities	**4,534**	**11,204**
Commitments and Contingencies - Note 12		
Stockholders' (Successor) / Member's (Predecessor) Equity		
Member's equity	—	(573)
Common stock - $0.001 par value [(a)]	—	—
Additional paid-in capital	2,337	—
Accumulated retained earnings (deficit)	(48)	—
Accumulated other comprehensive income (loss)	(12)	—
Total Stockholders'(Successor) / Member's (Predecessor) Equity	**2,277**	**(573)**
Noncontrolling interests	**81**	**91**
Total Equity	**2,358**	**(482)**
Total Liabilities and Equity	**$ 6,892**	**$ 10,722**

(a) As of September 30, 2023: 350,000,000 shares authorized; 59,028,843 shares issued and outstanding.

The accompanying Notes to the Interim Financial Statements are an integral part of the financial statements.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions of Dollars)	Successor May 18 through September 30, 2023	Predecessor January 1 through May 17, 2023	Predecessor Nine Months Ended September 30, 2022
Operating Activities			
Net income (loss)	$ (45)	$ 465	$ (1,454)
Non-cash reconciliation adjustments:			
Unrealized (gains) losses on derivative instruments	49	65	(336)
(Gain) loss on consolidation of Cumulus Digital Holdings	—	—	170
Nuclear fuel amortization	71	33	70
Depreciation, amortization and accretion	89	208	420
Impairments	—	381	—
Operational restructuring	—	—	447
Nuclear decommissioning trust funds (gain) loss, net (excluding interest and fees)	1	(43)	262
Deferred income taxes	(4)	195	(120)
Reorganization (income) expense, net	—	(933)	99
Other	23	(43)	123
Changes in assets and liabilities:			
Accounts receivable, net	(23)	261	(81)
Inventory, net	9	10	(54)
Other assets	47	98	(103)
Accounts payable and accrued liabilities	(89)	(69)	245
Accrued interest	65	(124)	236
Other liabilities	(13)	(42)	301
Net cash provided by (used in) operating activities	**180**	**462**	**225**
Investing Activities			
Property, plant and equipment expenditures	(60)	(138)	(123)
Nuclear fuel expenditures	(43)	(49)	(78)
Nuclear decommissioning trust funds investment sale proceeds	768	949	1,715
Nuclear decommissioning trust funds investment purchases	(780)	(959)	(1,733)
Equity investments in affiliates	(3)	(8)	(149)
Proceeds from the sale of non-core assets	—	46	—
Increase (decrease) in cash and restricted cash due to consolidation of subsidiaries	—	—	123
Other investing activities	10	2	11
Net cash provided by (used in) investing activities	**(108)**	**(157)**	**(234)**

(Millions of Dollars)	Successor May 18 through September 30, 2023	Predecessor January 1 through May 17, 2023	Predecessor Nine Months Ended September 30, 2022
Financing Activities			
Contributions from member	—	1,393	—
Exit Financings proceeds, net of discount	—	2,219	—
Repayment of Prepetition Secured Indebtedness	—	(3,898)	—
Payment of make-whole premiums on Prepetition Secured Indebtedness	—	(152)	—
DIP Facilities proceeds, net	—	—	987
TLB proceeds, net	289	—	—
Prepetition Deferred Capacity Obligations repayments	—	—	(176)
LMBE-MC TLB payments	(294)	(7)	(33)
Prepetition CAF proceeds	—	—	62
Prepetition CAF repayments, net	—	—	(62)
Net increase (decrease) in inventory repurchase obligations	—	—	(165)
Deferred finance costs	(4)	(74)	(59)
Repurchase of warrants	(40)	—	—
Repurchase of Riverstone noncontrolling interest	(19)	—	—
Derivatives with financing elements	—	(20)	(53)
Other	6	—	(11)
Net cash provided by (used in) financing activities	**(62)**	**(539)**	**490**
Net Increase (Decrease) in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	**10**	**(234)**	**481**
Beginning of period cash and cash equivalents and restricted cash and cash equivalents	754	988	743
End of period cash and cash equivalents and restricted cash and cash equivalents	$ 764	$ 754	$ 1,224

See Note 19 in Notes to the Interim Financial Statements for supplemental cash flow information.

The accompanying Notes to the Interim Financial Statements are an integral part of the financial statements.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(Millions of Dollars, except share data)	Common stock shares [(a)]	Additional paid-in capital	Accumulated earnings (deficit)	AOCI	Member's Equity	Noncontrolling Interest	Total Equity
June 30, 2023 (Successor)	59,029	$ 2,325	$ 29	$ (3)	$ —	$ 109	$ 2,460
Net income (loss)	—	—	(77)	—	—	1	(76)
Other comprehensive loss	—	—	—	(9)	—	—	(9)
Repurchase of NCI	—	5	—	—	—	(24)	(19)
Non-cash contributions	—	—	—	—	—	—	—
Non-cash distribution [(b)]	—	—	—	—	—	(5)	(5)
Other	—	7	—	—	—	—	7
September 30, 2023 (Successor)	59,029	$ 2,337	$ (48)	$ (12)	$ —	$ 81	$ 2,358
June 30, 2022 (Predecessor)	—	$ —	$ —	$ —	$ (431)	$ —	$ (431)
Net income (loss)	—	—	—	—	(300)	—	(300)
Other comprehensive loss	—	—	—	—	(4)	—	(4)
Non-cash consolidation of affiliate subsidiary	—	—	—	—	—	71	71
Non-cash distribution [(c)]	—	—	—	—	(4)	—	(4)
September 30, 2022 (Predecessor)	—	$ —	$ —	$ —	$ (739)	$ 71	$ (668)

(a) Shares in thousands.
(b) Relates primarily to a distribution of Bitcoin to TeraWulf in 2023.
(c) Relates to a tax indemnity agreement in 2022.

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TALEN ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

(Millions of Dollars, except share data)	Common stock shares [(a)]	Additional paid-in capital	Accumulated earnings (deficit)	AOCI	Member's Equity	Noncontrolling Interest	Total Equity
December 31, 2021 (Predecessor)	**—**	**$ —**	**$ —**	**$ —**	**$ 733**	**$ —**	**$ 733**
Net income (loss)	—	—	—	—	(1,454)	—	(1,454)
Other comprehensive loss	—	—	—	—	(14)	—	(14)
Non-cash consolidation of affiliate subsidiary	—	—	—	—	—	71	71
Non-cash distribution to member	—	—	—	—	(4)	—	(4)
September 30, 2022 (Predecessor)	**$ —**	**$ —**	**$ —**	**$ —**	**$ (739)**	**$ 71**	**$ (668)**
December 31, 2022 (Predecessor)	**—**	**$ —**	**$ —**	**$ —**	**$ (573)**	**$ 91**	**$ (482)**
Net income (loss)	—	—	—	—	479	(14)	465
Other comprehensive income	—	—	—	—	6	—	6
Cancellation of member's equity [(b)]	—	—	—	—	88	—	88
Issuance of member's equity [(b)]	—	—	—	—	2,313	—	2,313
Issuance of warrants [(b)]	—	—	—	—	8	—	8
Common equity from member's equity exchange	59,029	2,321	—	—	(2,321)	—	—
Non-cash contributions [(c)]	—	—	—	—	—	38	38
Non-cash distribution, net [(d)]	—	—	—	—	—	(5)	(5)
May 17, 2023 (Predecessor)	**59,029**	**$ 2,321**	**$ —**	**$ —**	**$ —**	**$ 110**	**$ 2,431**
May 18, 2023 (Successor)	**59,029**	**$ 2,321**	**$ —**	**$ —**	**$ —**	**$ 110**	**$ 2,431**
Net income (loss)	—	—	(48)	—		3	(45)
Other comprehensive loss	—	—	—	(12)	—	—	(12)
Repurchase of NCI		5				(24)	(19)
Non-cash distribution [(d)]	—	—	—	—	—	(8)	(8)
Other	—	11	—	—	—	—	11
September 30, 2023 (Successor)	**59,029**	**$ 2,337**	**$ (48)**	**$ (12)**	**$ —**	**$ 81**	**$ 2,358**

(a) Shares in thousands.

(b) Pursuant to the Plan of Reorganization: (i) existing equity interests were canceled and (ii) new equity interests and equity-classified warrants were issued.

(c) Relates to contributions of cryptocurrency mining machines by TeraWulf to Nautilus.

(d) Relates primarily to a distribution of cryptocurrency mining machines or Bitcoin to TeraWulf.

The accompanying Notes to the Interim Financial Statements are an integral part of the financial statements.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO THE INTERIM FINANCIAL STATEMENTS

Capitalized terms and abbreviations appearing in these Notes to the Interim Financial Statements are defined in the glossary. Dollars are in millions, unless otherwise noted. References to the "Annual Financial Statements" are to the audited Talen Energy Supply 2022 Annual Financial Statements and Notes thereto.

"TEC" refers to Talen Energy Corporation. "TES" refers to Talen Energy Supply, LLC. For periods after May 17, 2023, the terms "Talen," "Successor," the "Company," "we," "us" and "our" refer to Talen Energy Corporation and its consolidated subsidiaries (including TES), unless the context clearly indicates otherwise. For periods on or before May 17, 2023, the terms "Talen," "Predecessor," the "Company," "we," "us" and "our" refer to Talen Energy Supply and its consolidated subsidiaries, unless the context clearly indicates otherwise. See "Reverse Acquisition" in Note 2 for information on an accounting reverse acquisition that occurred at Emergence.

This presentation has been applied where identification of subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis. When identification of a subsidiary is considered important to understanding the matter being disclosed, the specific entity's name is used. Each disclosure referring to a subsidiary also applies to TEC insofar as such subsidiary's financial information is included in TEC's consolidated financial information. TEC and each of its subsidiaries and affiliates are separate legal entities and, except by operation of law, are not liable for the debts or obligations of one another absent an express contractual undertaking to the contrary.

1. Organization and Operations

Talen owns and operates power infrastructure in the United States. We produce and sell electricity, capacity and ancillary services into wholesale power markets in the United States, primarily in PJM, ERCOT and WECC, with our generation fleet principally located in the Mid-Atlantic, Texas and Montana. While the majority of our generation is already produced at zero-carbon nuclear and lower-carbon gas-fired facilities, we are reducing the carbon profile of our fleet through conversions and retirements of wholly-owned coal facilities. In addition, we are developing a hyperscale data center campus adjacent to our zero-carbon Susquehanna nuclear facility that will utilize carbon-free, low-cost energy provided directly from the plant. Consistent with our risk management initiatives, we may execute physical and financial commodity transactions involving power, natural gas, nuclear fuel, oil and coal to economically hedge and optimize our generation fleet. As of September 30, 2023, our generation capacity was 12,374 MW (summer rating). Talen is headquartered in Houston, Texas.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Our Interim Financial Statements, which are prepared in accordance with GAAP, include: (i) the accounts of all controlled subsidiaries, (ii) elimination adjustments for intercompany transactions between controlled subsidiaries, and (iii) all adjustments considered necessary for a fair presentation of the information set forth. All adjustments are of a normal recurring nature except as otherwise disclosed. Certain information and note disclosures have been condensed or omitted from the Interim Financial Statements in accordance with GAAP. The Condensed Consolidated Balance Sheet as of December 31, 2022 is derived from the Talen Energy Supply 2022 Consolidated Balance Sheet in the Annual Financial Statements. The Interim Financial Statements and Notes thereto should be read in conjunction with the Annual Financial Statements and Notes thereto. The results of operations presented in our Interim Financial Statements are not necessarily indicative of the results to be expected for the full year or for other future periods because interim period results can be disproportionately influenced by operational developments, seasonality, and other various factors.

Fresh Start Accounting. After Emergence, TES applied fresh start accounting, which resulted in a new basis of accounting as the Company became a new financial reporting entity. As a result of the application of fresh start accounting and the implementation of the Plan of Reorganization, our financial position and results of operations beginning after Emergence are not comparable to our financial position or results of operations prior to that date. Accordingly, the financial results are presented for: (i) the Predecessor period from January 1 through May 17, 2023, and (ii) the Successor period from May 18 through September 30, 2023. The Interim Financial Statements and Notes thereto have been presented with a black line division to delineate the lack of comparability between the Predecessor and Successor.

Reverse Acquisition. In May 2022, TEC deconsolidated TES for financial reporting purposes because TEC no longer controlled the activities of TES when TES and the other initial Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. Under the terms of the Restructuring, TEC regained control of TES at Emergence, which resulted in TEC's reconsolidation of TES. The combination was accounted for as a reverse acquisition in which TEC was the legal acquirer and TES was the accounting acquirer. Such conclusion was based on an assessment of the Plan of Reorganization's economic substance, in which certain creditors of TES effectively equitized their claims against TES into the controlling equity interests of TES, which were then exchanged for the controlling equity interests of TEC. Specifically, a conversion of $2.3 billion of member's equity of TES into 59,028,843 shares of new TEC common stock and equity-classified warrants to purchase common stock issued in accordance with the Plan of Reorganization, which is presented as "Common equity from member's equity exchange" in the Condensed Consolidated Statements of Equity.

Accordingly, our Interim Financial Statements are issued under the name of TEC, the legal parent of TES and accounting acquiree, but represent the continuation of the financial statements of TES, the accounting acquirer. This accounting acquirer determination was primarily based on the following facts and circumstances: (i) TES operations comprise substantially all of the ongoing operations of the combined entity, (ii) certain former TES creditors received substantially all voting interests of the combined entity, (iii) certain former TES creditors assumed the power to appoint or remove board members of the combined entity, (iv) TES employs senior management and all employees of the combined entity, and (v) TEC, prior to Emergence, did not have any operations or material assets separate from TES.

The economic substance and related accounting were also used in the determination of fresh start accounting applicability. See Note 4 for additional information on fresh start accounting. See Note 3 for additional information on the legal structure of the Restructuring transactions.

VIEs. Investments in entities in which Talen has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated for VIE accounting. Talen consolidates a VIE when it is determined that it has a controlling interest in the VIE and Talen is the primary beneficiary of the entity. See Note 11 of the Annual Financial Statements for additional information.

Summary of Significant Accounting Policies

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications. Certain amounts in the prior period financial statements were reclassified to conform to the current period's presentation. The reclassifications did not affect operating income, net income, total assets, total liabilities, net equity or cash flows.

Nautilus Revenue Recognition. The primary output of Nautilus's ordinary business activities is providing computing power, or hashing power, to solve complex cryptographic algorithms in support of blockchain mining. Nautilus is party to a mining pool arrangement to provide an unspecified amount of its available computing power to an unaffiliated mining pool operator. Nautilus is entitled to an enforceable right to compensation from the mining pool operator only for the duration of time over which Nautilus provides its computing power.

In exchange for providing computing power to the mining pool operator, Nautilus is entitled to daily consideration, whether or not the mining pool operator successfully solves a block, based on a 'full-pay-per-share' payout methodology. Nautilus's only performance obligation is to provide computing power to the mining pool operator. If Nautilus does not provide computing power to the mining pool operator, no consideration is awarded to Nautilus nor does Nautilus incur any penalties from the mining pool operator. The Bitcoin earned by Nautilus is all variable noncash consideration. Accordingly, Nautilus recognizes revenue daily that is measured at fair value using the quoted price for Bitcoin in Nautilus's principal market at the beginning of each day (Coordinated Universal Time).

Accounting Policy Updates at Emergence

At Emergence, we elected to amend certain of our accounting policies related to derivative instruments and postretirement benefit obligations. Additionally, we adopted an accounting policy for stock-based compensation.

Derivative Instruments. The netting and collateral provisions under master trade agreements govern setoff rights and collateral requirements on commercial agreements between counterparties. Prior to Emergence, the fair value of derivative instruments presented on the Condensed Consolidated Balance Sheets was presented gross of setoff rights and cash collateral deposits exchanged between parties under such arrangements. After Emergence, the fair value of derivative instruments is presented net of setoff rights and cash collateral deposits. The fair value of commercial contracts that are not subject to netting and (or) collateral provisions is presented gross. See Note 5 for additional information on derivative instruments and hedging activities.

Postretirement Benefit Obligations. Prior to Emergence, a bond matching methodology was utilized, based on a specific portfolio of bonds that closely match the overall cash flow timing and duration of the benefit plans, to develop the discount rate utilized to measure the projected benefit obligations and service costs for benefit plans. After Emergence, a spot rate curve that represents a portfolio of high-quality corporate bonds is used to develop the discount rate.

Stock-Based Compensation. In connection with Emergence, TEC granted performance stock units and restricted stock units to certain employees and non-employee directors. The fair value of performance stock units is estimated on the date of grant utilizing a Monte Carlo Valuation Model, which contains significant unobservable inputs that are believed to be consistent with those used by principal market participants. The fair value of restricted stock units is derived from the closing price of TEC common stock at the grant date. Forfeitures are recognized as they occur. Unvested performance stock units and restricted stock units are entitled to dividends or dividend equivalents, which are accrued and distributed to award recipients at the time such awards vest. Dividends and dividend equivalents are subject to the same vesting and forfeiture provisions as the underlying awards. Stock-based compensation expense is recognized for both graded and cliff vesting awards on a straight-line basis over the requisite service period for the entire award. Stock-based compensation expense is presented as "General and administrative" on the Condensed Consolidated Statements of Operations. Stock-based compensation expense was $8 million for the three months ended September 30, 2023 (Successor) and $11 million for the period from May 18 through September 30, 2023 (Successor). Prior to Emergence, there were no stock-based compensation activities.

3. Talen Emergence from Restructuring

Voluntary Reorganization Under Chapter 11 of the U.S. Bankruptcy Code

In May 2022, TES and the other initial Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. In December 2022, TEC became a Debtor in the Restructuring in order to facilitate certain transactions contemplated by the Plan of Reorganization. The Plan of Reorganization was approved by the requisite parties in November 2022, was confirmed by the Bankruptcy Court in December 2022, and was consummated and became effective in May 2023, when the Debtors emerged from the Restructuring.

Settlements, Restructuring Support Agreement and Backstop Commitment Letter

Prior to and during the Restructuring, the Debtors reached a number of settlements with certain stakeholders in the Restructuring (including certain holders of claims under the Prepetition Unsecured Notes, Prepetition CAF, Prepetition TLB and Prepetition Secured Notes, as well as Riverstone and TEC), each of which resolved outstanding issues among the Debtors and those parties. These settlements were agreed to in the RSA. An additional settlement was reached with the Official Committee of Unsecured Creditors of the Debtors, which resolved all of the Committee's outstanding issues in the Restructuring. The terms of the RSA and the settlements were incorporated into the final Plan of Reorganization.

Pursuant to the settlements, the settling parties agreed to support the Plan of Reorganization and the Restructuring transactions outlined below, which included a common equity Rights Offering of up to $1.9 billion. The Backstop Parties, comprised of certain holders of claims under the Prepetition Unsecured Notes, also entered into the Backstop Commitment Letter, under which they agreed to purchase up to $1.55 billion of the new equity offered in the Rights Offering to the extent not fully subscribed. As consideration for their backstop commitments, the Backstop Parties became entitled to subscription rights to purchase 30% of the new equity issued in the Rights Offering and a Backstop Premium payment in the form of cash and (or) new equity. Pursuant to the Rights Offering, Talen Energy Corporation raised $1.4 billion of additional equity capital.

Plan of Reorganization and Emergence from Restructuring

The Plan of Reorganization implemented, among other things, the transactions contemplated by the RSA and the related settlements. The Restructuring was completed, and the Debtors emerged from the Restructuring, on May 17, 2023. Pursuant to the Plan of Reorganization, among other things:

- Claims against TEC were paid in full in cash or reinstated. All existing equity interests in TEC were extinguished, and new equity interests in TEC were issued as follows:
    - Holders of claims under TES's Prepetition Unsecured Notes and PEDFA 2009A Bonds received (i) 99% of the TEC common stock (subject to dilution), less the Retail PPA Incentive Equity issued to Riverstone at Emergence, and (ii) subscription rights to purchase additional shares of TEC common stock in the Rights Offering (or, in the case of certain ineligible holders, cash in lieu thereof).
    - Riverstone received (i) 1.00% of the TEC common stock (after giving effect to the Rights Offering and payment of the remaining Backstop Premium), (ii) the Retail PPA Incentive Equity, and (iii) warrants to purchase additional shares of TEC common stock.
    - The remaining portion of the Backstop Premium was paid to the Backstop Parties in the form of TEC common stock.
    - The Rights Offering was consummated, which resulted in net cash proceeds of approximately $1.4 billion. Approximately 92% of claims under TES's Prepetition Unsecured Notes and PEDFA 2009A Bonds were tendered in the Rights Offering, and the Backstop Parties were required to purchase the remainder of the unsubscribed for new TEC common stock attributable to the remaining claims under the Prepetition Unsecured Notes and PEDFA 2009A Bonds.
- All intercompany equity interests among the Debtors were reinstated so as to maintain the pre-existing organizational structure of the Debtors. Intercompany claims among the Debtors were cancelled, released, discharged and extinguished.

- The Exit Financings were consummated, comprised of: (i) the RCF, a $700 million revolving credit facility, including letter of credit commitments of $475 million, (ii) the TLB of $580 million, (iii) the TLC of $470 million (the proceeds of which were used to cash collateralize LCs under the TLC LCF), (iv) the TLC LCF, which provides commitments for up to $470 million in LCs (cash collateralized with the proceeds of the TLC), (v) the Bilateral LCF, which provides commitments for up to $75 million in LCs, and (vi) $1.2 billion of Secured Notes.
- The proceeds of the Rights Offering and the Exit Financings, together with cash on hand, were used to fully repay the DIP Facilities and to pay other claims in cash as follows:
    - Holders of claims under the Prepetition CAF received their share of approximately $1.0 billion, as agreed in the relevant settlement;
    - Holders of prepetition first lien secured claims (other than those under the Prepetition CAF) received their share of approximately $2.1 billion, as agreed in the relevant settlement; and
    - Holders of Other Secured Claims (as defined in the Plan of Reorganization) received the unpaid portion of their allowed claims.
- Each holder of a General Unsecured Claim (as defined in the Plan of Reorganization) received its pro rata share of interests in a $26 million pool of cash set aside for general unsecured creditors. To the extent any proceeds are recovered by the Debtors pursuant to the PPL/Talen Montana litigation, 10% of the net proceeds recovered will be contributed to the pool of cash, subject to a cap of $11 million. See Note 12 for information on the PPL/Talen Montana litigation.

4. Fresh Start Accounting

At Emergence, TES adopted fresh start accounting as: (i) the holders of existing voting shares before the consummation of the Plan of Reorganization received less than 50% of the voting shares of the Successor, and (ii) the reorganization value of TES's assets immediately prior to confirmation of the Plan of Reorganization of $7.8 billion was less than the total of post-petition liabilities and allowed claims of $9.8 billion. Accordingly, TES allocated its reorganization value to its individual assets based on their estimated fair values.

Reorganization Value

Reorganization value is derived from an estimate of enterprise value, or the fair value of the Company's interest-bearing debt and member's equity. As negotiated in the Plan of Reorganization and related disclosure statement approved by the Bankruptcy Court, the enterprise value as of Emergence was $4.5 billion. Management engaged third-party valuation advisors to assist in estimating the enterprise value and allocating the enterprise value to the assets and liabilities for financial reporting purposes as of Emergence. Enterprise value assumptions incorporated: (i) economic and industry information relevant to the business, (ii) internal financial information and operating data, (iii) historical financial information, and (iv) financial projections and other applicable assumptions. The valuation techniques used to estimate the enterprise value as of Emergence included the income approach, market approach, and cost approach, with consideration of the exit market and nature of the applicable asset or liability subject to valuation.

The Company's principal assets are generation facilities whose values were determined by a discounted cash flow analysis based on management's latest outlook of the business through the end of their expected useful lives. The forward-looking projections considered: (i) company-specific factors, such as unit characteristics, plant dispatch, operating expenses, capital expenditures and estimated economic useful lives, and (ii) macroeconomic factors, such as capacity prices, energy prices, fuel prices, market supply and demand factors, inflation factors, and environmental regulations. Commodity prices used to estimate future cash flows in observable periods were primarily based on adjusted exchange prices, prices provided by brokers, or prices provided by price service companies that are corroborated by market data. Commodity prices for future unobservable periods used third party pricing services that incorporate industry standard methodologies that may consider the historical relationships among various commodities, modeled market prices, inflation assumptions, and other relevant economic measures.

Future estimates for capital expenditures and operating expenses, such as major maintenance and employee compensation were estimated considering unit operating experience, recent historical financial information, and expected operating performance. The expected useful lives of the generation facilities were estimated through 2050 and incorporated expectations regarding the economic prospects of each unit, permitting and licensing, regulatory requirements, and (or) other considerations. The cash flow estimates incorporated a federal effective tax rate of 21% and the applicable state tax rate based on the location of each generation facility. The present value of expected future cash flows utilized a weighted average cost of capital discount rate that ranged from 8.5% to 46.5%. The discount rate utilized for nuclear generation was 8.5% and certain natural gas generation facilities were estimated near the low end of the range. Certain coal and natural gas generation units were estimated near the high end of the range. Discount rates for each generation facility considered, among other things, unit characteristics, fuel type, and market location.

The assumptions used to estimate the reorganization value considered all available evidence as of Emergence, are believed to be consistent with those used by the principal market participants and outlook for each generation facility, and represent management's best estimate of reorganization value. However, such assumptions are inherently uncertain and require judgment. Accordingly, changes to sensitive assumptions, which primarily include commodity prices and discount rates, would have a reasonable possibility of significantly affecting the measurement of the reorganization value. See below under "Fresh Start Adjustments" for additional information regarding assumptions used in the measurement of the Company's various other significant assets and liabilities.

Upon the application of fresh start accounting, the Company preliminarily allocated the reorganization value to its individual assets based on their estimated fair values. The following table reconciles the Company's enterprise value to the estimated reorganization value at Emergence:

	May 17, 2023
Enterprise value [(a)]	$ 4,500
Plus: Cash and cash equivalents and Restricted cash and cash equivalents [(b)]	701
Plus: Current liabilities excluding long-term debt due within one year	514
Plus: Non-current liabilities excluding long-term debt and liability-classified warrants	1,234
Plus: Fair value of noncontrolling interest	110
Reorganization value to be allocated	**$ 7,059**

(a) Excludes any value associated with noncontrolling interest.
(b) Excludes $52 million for payment of professional fees.

The following table reconciles TES's enterprise value to the estimated fair value at Emergence:

	May 17, 2023
Enterprise value [(a)]	$ 4,500
Plus: Cash and cash equivalents and Restricted cash and cash equivalents [(b)]	701
Less: Fair value of debt	(2,845)
Less: Liability-classified warrants	(35)
Fair value of member's equity [(c)]	2,321
Plus: Fair value of noncontrolling interest	110
Fair value of equity	**$ 2,431**

(a) Excludes any value associated with noncontrolling interest.
(b) Excludes $52 million for payment of professional fees.
(c) Issued in accordance with the Plan of Reorganization. Includes 59,028,843 shares of TEC common stock and $8 million of equity-classified warrants.

Condensed Consolidated Balance Sheet

The "Reorganization Adjustments" on the fresh start Condensed Consolidated Balance Sheet as of Emergence present the aggregate effect of the transactions contemplated by the Plan of Reorganization. The "Fresh Start Adjustments" present the preliminary fair value and other required adjustments as a result of applying fresh start accounting. The explanatory notes provide additional information related to the adjustments, the methods used to determine fair values, and significant assumptions.

	May 17, 2023			
Assets	**Predecessor**	**Reorganization Adjustments (a)**	**Fresh Start Adjustments**	**Successor**
Cash and cash equivalents	$ 1,302	$ (1,133) (b)	$ —	$ 169
Restricted cash and cash equivalents	240	426 (c)	(81) (q)	585
Accounts receivable, net	148	(3) (d)	—	145
Inventory, net	448	—	(141) (r)	307
Derivative instruments	818	—	(632) (q)	186
Other current assets	135	—	(5) (s)	130
Total current assets	**3,091**	**(710)**	**(859)**	**1,522**
Property, plant and equipment, net	4,322	—	(458) (t)	3,864
Nuclear decommissioning trust funds	1,465	—	—	1,465
Derivative instruments	37	—	(37) (q)	—
Other noncurrent assets	146	(12) (e)	74 (u)	208
Total Assets	**$ 9,061**	**$ (722)**	**$ (1,280)**	**$ 7,059**
Liabilities and Equity				
Revolving credit facilities	$ 848	$ (848) (f)	$ —	$ —
Long-term debt, due within one year	1,005	(1,000) (g)	—	5
Accrued interest	288	(284) (h)	—	4
Accounts payable and other accrued liabilities	382	3 (i)	—	385
Derivative instruments	711	—	(654) (q)	57
Other current liabilities	414	(349) (j)	3 (v)	68
Total current liabilities	**3,648**	**(2,478)**	**(651)**	**519**
Long-term debt	2,504	281 (k)	55 (w)	2,840
Liabilities subject to compromise	2,788	(2,788) (l)	—	—
Derivative instruments	135	—	(93) (q)	42
Postretirement benefit obligations	(1)	302 (m)	34 (x)	335
Asset retirement obligations and accrued environmental costs	580	202 (m)	(340) (y)	442
Deferred income taxes	82	283 (n)	(8) (z)	357
Other noncurrent liabilities	19	60 (o)	14 (aa)	93
Total Liabilities	**9,755**	**(4,138)**	**(989)**	**4,628**
Member's equity	(818)	3,416 (p)	(277) (bb)	2,321
Noncontrolling interests	124	—	(14) (cc)	110
Total Equity	**(694)**	**3,416**	**(291)**	**2,431**
Total Liabilities and Equity	**$ 9,061**	**$ (722)**	**$ (1,280)**	**$ 7,059**

Reorganization Adjustments

The reorganization adjustments required in connection with the application of fresh start accounting and the allocation of the enterprise value were:

(a) Emergence adjustments for the implementation of the Plan of Reorganization. Such adjustments include: (i) settlement of prepetition liabilities subject to compromise, (ii) payment of certain prepetition indebtedness, (iii) issuances of member's equity, (iv) recognition of new indebtedness and related restricted cash, and (v) other items.

(b) The uses of "Cash and cash equivalents" at Emergence resulting from the implementation of the Plan of Reorganization were:

Proceeds from Rights Offering	$	1,400
Proceeds from TLB and TLC		1,019
Proceeds from Secured Notes		1,200
Release of restricted cash		89
Payment of claims under Prepetition CAF		(1,029)
Payment of claims under other Prepetition Secured Indebtedness		(2,136)
Payment of DIP TLB		(1,012)
Restriction of cash relating to TLC LCF		(470)
Payment of debt issuance costs on TLB, TLC and Secured Notes		(54)
Funding of professional fees escrow account		(52)
Payment of hedge rejections		(42)
Payment to general unsecured creditors trust		(26)
Payment of professional fees		(22)
Other [(a)]		2
Total uses of Cash and cash equivalents	**$**	**(1,133)**

(a) Includes $1 million of proceeds from Riverstone for payment to general unsecured creditors trust.

(c) "Restricted cash and cash equivalents" net change:

Restriction of cash relating to TLC LCF	$	470
Funding of professional fees escrow account		52
Release of restricted cash		(89)
Payment of professional fees		(7)
Net change in Restricted cash and cash equivalents	**$**	**426**

(d) "Accounts receivable, net" net change related to settlement of affiliate receivables.

(e) "Other noncurrent assets" net change:

Write-off of debt issuance costs associated with Prepetition CAF	$	(22)
Reclassification of previously capitalized debt issuance costs to Long-term debt		(14)
Capitalization of debt issuance costs		24
Net change in Other noncurrent assets	**$**	**(12)**

(f) Payment of principal amounts owed under Prepetition CAF.

(g) Repayment of DIP Facilities.

(h) "Accrued interest" net change:

Payment of accrued interest on Prepetition CAF	$	(183)
Payment of accrued interest on other Prepetition Secured Indebtedness		(89)
Payment of accrued interest on DIP Facilities		(12)
Net change in Accrued interest	**$**	**(284)**

(i) "Accounts payable and other accrued liabilities" net change:

Payment of hedge contract rejections	$	(42)
Payment of professional fees		(6)
Reinstatement of liabilities subject to compromise		38
Accrual for professional fees incurred at Emergence		13
Net change in Accounts payable and other accrued liabilities	**$**	**3**

(j) "Other current liabilities" net change:

Issuance of equity for Backstop Premium	$	(380)
Reinstatement of liabilities subject to compromise		31
Net change in Other current liabilities	**$**	**(349)**

(k) "Long-term debt" net change:

Payment of claims under Prepetition Secured Indebtedness	$	(2,048)
Borrowings of $1.2 billion under the Secured Notes [(a)]		1,179
Borrowings of $580 million under TLB [(b)]		548
Borrowings of $470 million under TLC [(c)]		446
Reinstatement of PEDFA 2009B Bonds and PEDFA 2009C Bonds [(d)]		130
Write-off of Prepetition Secured Indebtedness issuance costs		26
Net change in Long-term debt	**$**	**281**

(a) Net of an aggregate initial purchaser discount and debt issuance costs of $21 million. See Note 13 for more information.
(b) Net of an aggregate original issue discount and debt issuance costs of $32 million. See Note 13 for more information.
(c) Net of an aggregate original issue discount and debt issuance costs of $24 million. See Note 13 for more information.
(d) Includes recognition of $4 million of interest expense.

(l) "Liabilities subject to compromise" settled or reinstated at Emergence in accordance with the Plan of Reorganization:

Liabilities subject to compromise prior to Emergence		
Debt	$	1,555
Termination of retail contracts		447
Postretirement benefit obligations		305
Asset retirement obligations and accrued environmental costs		220
Other liabilities		92
Deferred tax liabilities		77
Accounts payable and accrued liabilities		51
Accrued interest		41
Total		2,788
Reinstatement and settlements of certain liabilities subject to compromise		
Reinstatement of liabilities subject to compromise [(a)]		(801)
Excess fair value ascribed to lenders participating in Rights Offering		(315)
Issuance of member's equity to holders of claims under Prepetition Unsecured Notes and PEDFA 2009A Bonds		(186)
Payment to general unsecured creditors trust		(24)
Total		(1,326)
Gain on derecognition of certain liabilities subject to compromise [(b)]	**$**	**1,462**

(a) Primarily includes postretirement benefit obligations, AROs, and deferred income taxes.
(b) Represents liabilities subject to compromise that were discharged in accordance with the Plan of Reorganization.

(m) Reinstatement of "Liabilities subject to compromise."

(n) "Deferred income taxes" net change:

Increase in deferred tax liabilities primarily due to estimated tax attribute reduction from the recognition of cancellation of debt income, partially offset by change in valuation allowance	$	206
Reinstatement of liabilities subject to compromise		77
Net change in Deferred income taxes	**$**	**283**

(o) "Other noncurrent liabilities" net change:

Issuance of liability-classified warrants [(a)]	$	35
Reinstatement of liabilities subject to compromise		25
Net change in Other noncurrent liabilities	**$**	**60**

(a) See Note 16 for more information.

The estimated fair value of liability-classified warrants was determined using a Black-Scholes Option Pricing Model with the following assumptions at Emergence:

Expected volatility		30.00 %
Expected term (years)		5.00
Expected dividend yield		— %
Risk-free interest rate		3.6 %
Strike price per share	$	52.92
Fair value per share	$	11.29

(p) "Member's equity" net change:

Gain on settlement of liabilities subject to compromise	$	1,462
Other losses attributable to gain on debt discharge		(3)
Gain on debt discharge		1,459
Write-off of deferred financing cost		(46)
Professional fees expensed at Emergence		(27)
Restructuring-related compensation expense		(8)
Total reorganization items from reorganization adjustments		1,378
Interest expense incurred at Emergence		(4)
Income from reorganization adjustments before income taxes		1,374
Income tax expense		(206)
Net income from reorganization adjustments		1,168
Issuance of member's equity in connection with Rights Offering		1,715
Issuance of member's equity for Backstop Premium		380
Issuance of member's equity to holders of claims under Prepetition Unsecured Notes and PEDFA 2009A Bonds		186
Issuance of equity-classified warrants [(a)]		8
Issuance of liability-classified warrants [(a)]		(35)
Other [(b)]		(6)
Net change in Member's equity	**$**	**3,416**

(a) See Note 16 for more information.
(b) Includes $1 million of proceeds from Riverstone for payment to general unsecured creditors trust.

Fresh Start Adjustments

(q) Net presentation of derivatives on the unaudited Condensed Consolidated Balance Sheets. See Note 2 for more information on this policy change.

(r) "Inventory, net" fair value adjustments:

Coal	$	(33)
Oil products		11
Materials and supplies		(133)
Environmental products		14
Total adjustment to Inventory, net	**$**	**(141)**

The fair values for oil, coal and environmental products were estimated using current market prices. The fair values of materials and supplies were estimated using an indirect cost approach. The cost approach estimates fair value by considering the amount required to construct or purchase a new asset of equal utility at current prices, with adjustments for asset function, age, physical deterioration and obsolescence.

(s) "Other current assets" primarily represents miscellaneous fair value adjustments.

(t) "Property, plant and equipment" fair value adjustments:

Electric generation	$	(350)
Other property and equipment		(80)
Intangible assets		(65)
Capitalized software		(3)
Construction work in progress		40
Total adjustment to Property, plant and equipment	**$**	**(458)**

The fair value of "Property, plant and equipment" was estimated using the income approach, market approach and cost approach, as applicable. The fair value of land was estimated utilizing the market approach, which considered comparable market-based transactions within a defined area based on size, use and utility.

(u) "Other noncurrent assets" fair value adjustments:

Favorable supply contracts [a]	$	109
Fair value adjustment to equity method investments		3
Eliminate debt issuance costs associated with DIP Facilities		(29)
Fair value reduction to other miscellaneous assets		(9)
Total adjustment to Other noncurrent assets	**$**	**74**

(a) The fair value of supply contracts was determined utilizing the present value of the after-tax difference between the pricing of actual contracts in place and a current market benchmark.

(v) "Other current liabilities" fair value adjustments, primarily related to short-term AROs.

(w) "Long-term debt" fair value adjustments:

Eliminate debt issuance costs associated with Prepetition Secured Notes, Prepetition TLB and LMBE-MC TLB [a]	$	48
Fair value adjustment to Cumulus Digital TLF [a]		11
Fair value adjustment to LMBE-MC TLB [a]		(4)
Total adjustment to Long-term debt	**$**	**55**

(a) See Note 13 for more information.

Fair value adjustments to "Long-term debt" were determined using a lattice model, given that the debt can be prepaid by the borrower prior to the maturity date.

(x) Change in accounting policy for discount rates used to estimate postretirement obligations from a bond-matching model to yield curve approach. See Note 2 for additional information.

(y) Adjustment to present at fair value AROs using assumptions as of Emergence, including an inflation factor of 2-3% and an estimated 5- to 20-year credit-adjusted risk-free rate of 8-12% based on timing of cash flows for each underlying obligation.

(z) Adjustment to "Deferred income taxes" for the change in financial reporting basis of assets and liabilities as a result of the adoption of fresh start accounting.

(aa) Fair value adjustments primarily related to unfavorable supply contracts of $13 million and the recognition of unfavorable lease liabilities. The fair value of supply contracts was determined utilizing the present value of the after-tax difference between the pricing of actual contracts in place and current market benchmarks.

(bb) Cumulative impact of fresh start accounting adjustments presented herein.

(cc) “Noncontrolling interests” fair value adjustments for certain subsidiaries.

Liabilities Subject to Compromise

As of December 31, 2022, “Liabilities subject to compromise” on the Condensed Consolidated Balance Sheets represents the expected allowed amount of the prepetition claims of the Debtors that were not fully secured and that had at least a possibility of not being repaid at the full claim amount.

	Predecessor
	December 31, 2022
Debt [(a)]	$ 1,558
Termination of retail power and other contracts	447
Postretirement benefit obligations [(a)]	309
Asset retirement obligations and accrued environmental costs [(a)]	219
Other liabilities [(a)]	114
Deferred tax liabilities	83
Accounts payable and accrued liabilities	53
Accrued interest	41
Derivatives [(a)]	1
Liabilities Subject to Compromise	**$ 2,825**

(a) Includes both current and noncurrent amounts.

Reorganization Income (Expense), net

“Reorganization income (expense), net” for the periods presented were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Backstop Premium	$ —	$ (310)	$ —	$ (70)	$ (310)
Gain (loss) on debt discharge	—	—	—	1,459	—
Gain (loss) on revaluation adjustments	—		—	(460)	—
Professional fees	—	(87)	—	(56)	(132)
Make-whole premiums and accrued interest on certain indebtedness	—	16	—	(21)	(168)
Professional fees incurred to obtain the DIP Facilities	—	—	—	—	(68)
Write-off of deferred financing cost and original issue discount	—	—	—	(46)	(30)
Other	—	(4)	—	(7)	(8)
Reorganization Income (Expense), net	**$ —**	**$ (385)**	**$ —**	**$ 799**	**$ (716)**

In the preceding table, make-whole premiums and accrued interest on certain indebtedness primarily represents charges recognized by the Debtors for estimates related to make-whole premiums and accrued interest, where applicable, on the Prepetition CAF and certain other Prepetition Secured Indebtedness. The charges are presented as "Reorganization income (expense), net" on the Condensed Consolidated Statements of Operations and included in "Accrued interest" on the Condensed Consolidated Balance Sheets.

Cash paid for certain reorganization expenses was $308 million for the period from January 1 through May 17, 2023 (Predecessor). Cash paid in the nine months ended September 30, 2022 (Predecessor) for DIP Facilities financing fees is presented as "Financing Activities" on the Condensed Consolidated Statement of Cash Flows.

5. Risk Management, Derivative Instruments and Hedging Activities

Risk Management Objectives

We are exposed to risks arising from our business, including but not limited to market and commodity price risk, credit and liquidity risk and interest rate risk. The hedging and optimization strategies deployed by our commercial organization manage and (or) balance these risks within a structured risk management program in order to minimize near-term future cash flow volatility. Our risk management committee, comprised of certain senior management members across the organization, oversees the management of these risks in accordance with our risk policy. In turn, the risk management committee is overseen by the risk committee of the Board of Directors.

The Board of Directors (including the risk committee) and management have established procedures to monitor, measure and manage hedging activities and credit risk in accordance with the risk policy.

Key risk control activities, which are designed to ensure compliance with the risk policy include, among other activities, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, portfolio stress tests, analysis and monitoring of margin at risk and daily portfolio reporting.

Market and Commodity Price Risk. Volatility in the wholesale power generation markets provides uncertainty in the future performance and cash flows of the business. The price risk Talen is exposed to includes the price variability associated with future sales and (or) purchases of power, natural gas, coal, uranium, oil products, environmental products and other energy commodities in competitive wholesale markets. Several factors influence price volatility, including: seasonal changes in demand; weather conditions; available regional load-serving supply; regional transportation and (or) transmission availability; market liquidity; and federal, regional and state regulations.

Within the parameters of our risk policy, we generally utilize conventional first lien, exchange-traded and over-the-counter traded derivative instruments, and in certain instances, structured products, to economically hedge the commodity price risk of the forecasted future sales and purchases of commodities associated with our generation portfolio.

Open commodity purchase (sales) derivatives as of September 30, 2023 (Successor) range in maturity through 2026. The net notional volumes of open commodity derivatives were:

	Successor	Predecessor
	September 30, 2023 (a)	December 31, 2022 (a)
Power (MWh)	(31,598,355)	(34,810,559)
Natural gas (MMBtu)	25,787,090	57,621,580
Emission allowances (tons)	3,700,000	5,000,000

(a) The volumes may be less than the contractual volumes, as the probability that option contracts will be exercised is considered in the volumes displayed.

Interest Rate Risk. Talen is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows associated with existing floating rate debt issuances. To reduce interest rate risk, derivative instruments are utilized to economically hedge the interest rates for a predetermined contractual notional amount, which results in a cash settlement between counterparties. To the extent possible, first lien interest rate fixed-for-floating swaps are utilized to hedge this risk.

Open interest rate derivatives as of September 30, 2023 (Successor) range in maturity dates through 2026. The net notional volumes of open interest rate derivatives were:

	Successor	Predecessor
	September 30, 2023	**December 31, 2022**
Interest rate (in millions) [(a)]	$ 290	$ 289

(a) Value as of September 30, 2023 relates to interest rate derivatives for the TLB indebtedness. Value as of December 31, 2022 relates to interest rate derivatives for the LMBE-MC indebtedness, which was repaid, and the associated derivatives terminated, in August 2023.

Credit Risk. Credit risk, which is the risk of financial loss if a customer, counterparty or financial institution is unable to perform or pay amounts due, is inherent within cash and cash equivalents, restricted cash and cash equivalents, derivative instruments and accounts receivable. The maximum amount of credit exposure associated with financial assets is equal to the carrying value. Credit risk, which cannot be completely eliminated, is managed through a number of practices such as ongoing reviews of counterparty creditworthiness, prepayment, inclusion of termination rights in contracts which are triggered by certain events of default and executing master netting arrangements which permit amounts between parties to be offset. Additionally, credit enhancements such as cash deposits, letters of credit and credit insurance may be employed to mitigate credit risk.

Cash and cash equivalents are placed in depository accounts or high-quality short-term investments with major international banks and financial institutions. Individual counterparty exposure from over-the-counter derivative instruments is managed within predetermined credit limits and includes the use of master netting arrangements and cash-call margins, when appropriate, to reduce credit risk. Exchange-traded commodity contracts, which are executed through futures commission merchants, have minimal credit risk because they are subject to mandatory margin requirements and are cleared with an exchange. However, Talen is exposed to the credit risk of the futures commission merchants arising from daily variation margin cash calls. Restricted cash and cash equivalents deposited to meet initial margin requirements are held by futures commission merchants in segregated accounts for the benefit of Talen.

Outstanding accounts receivable include those from sales of capacity, generated electricity and ancillary services through contracts directly with ISOs and RTOs and realized settlements of physical and financial derivative instruments with commodity marketers. Additionally, Talen carries accounts receivable due from joint owners for their portion of operating and capital costs for certain jointly owned facilities that are operated by the Company. The majority of outstanding receivables, which are continually monitored, have customary payment terms. Allowances for doubtful accounts were $4 million as of September 30, 2023 (Successor) and $6 million as of December 31, 2022 (Predecessor).

As of September 30, 2023 (Successor), Talen's aggregate credit exposure, which excludes the effects of netting arrangements, cash collateral, letters of credit and any allowances for doubtful collections, was $624 million and its credit exposure net of such effects was $162 million. Excluding ISO and RTO counterparties, whose accounts receivable settlements are subject to applicable market controls, the ten largest single net credit exposures account for approximately 85% of Talen's total net credit exposure, which are primarily with entities assigned investment grade credit ratings.

Certain derivative instruments contain credit risk-related contingent features, which may require us to provide cash collateral, letters of credit or guarantees from a creditworthy entity if the fair value of a liability eclipses a certain threshold or upon a decline in our credit rating. The fair value of derivative instruments in a net liability position, and that contain credit risk-related contingent features, were a non-material amount as of September 30, 2023 (Successor) and December 31, 2022 (Predecessor).

Derivative Instrument Presentation

Balance Sheet Presentation. The fair value of derivative instruments presented within assets and liabilities on the Condensed Consolidated Balance Sheets were:

	Successor				Predecessor [a]			
	September 30, 2023				December 31, 2022			
	Assets		Liabilities		Assets		Liabilities	
Commodity contracts	$	74	$	69	$	2,156	$	1,928
Interest rate contracts		2		—		9		—
Less: amounts presented as "Liabilities subject to compromise"		—		—		—		1
Total current derivative instruments	**$**	**76**	**$**	**69**	**$**	**2,165**	**$**	**1,927**
Commodity contracts	$	1	$	9	$	228	$	363
Interest rate contracts		—		2		—		—
Total non-current derivative instruments	**$**	**1**	**$**	**11**	**$**	**228**	**$**	**363**

(a) A portion of liability values has been presented as "Liabilities subject to compromise" on the Condensed Consolidated Balance Sheets. See Note 4 for additional information.

All commodity and interest rate derivatives are economic hedges where the changes in fair value are presented immediately in income as unrealized gains and losses. Changes in the fair value and realized settlements on commodity derivative instruments are presented as separate components of "Energy revenues" and "Fuel and energy purchases" on the Condensed Consolidated Statements of Operations. Changes in fair value and realized settlements of interest rate derivatives are presented as "Interest expense and other finance charges" on the Condensed Consolidated Statements of Operations. See Note 14 for additional information on fair value.

Effect of Netting. Generally, the right of setoff within master netting arrangements permits the fair value of derivative assets to be offset with derivative liabilities. As an election, derivative assets and derivative liabilities are presented on the Condensed Consolidated Balance Sheets with the effect of such permitted netting as of September 30, 2023 (Successor), while derivative assets and derivative liabilities are presented on the Condensed Consolidated Balance Sheets without the effect of such permitted netting as of December 31, 2022 (Predecessor). See Note 2 for information on this policy election change.

The net amounts of "Derivative instruments" presented as assets and liabilities on the Condensed Consolidated Balance Sheets considering the effect of permitted netting and where cash collateral is pledged in accordance with the underlying agreement were:

	Gross Derivative Instruments		Eligible for Offset		Liabilities Subject to Compromise		Net Derivative Instruments		Collateral (Posted) Received		Net Amounts	
September 30, 2023 (Successor)												
Assets	$	452	$	(375)	$	—	$	77	$	—	$	77
Liabilities		526		(375)		—		151		(71)		80
December 31, 2022 (Predecessor)												
Assets	$	2,393	$	(2,194)	$	—	$	199	$	—	$	199
Liabilities [a]		2,291		(2,194)		1		96		(75)		21

(a) Includes amounts that are presented as "Liabilities subject to compromise" on the Condensed Consolidated Balance Sheets. See Note 4 for additional information.

Statement of Operations Presentation. The location and pre-tax effect of derivative instruments presented on the Condensed Consolidated Statements of Operations were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Realized gain (loss) on commodity contracts					
Energy revenues [(a)]	$ 177	$ (175)	$ 247	$ 644	$ (608)
Fuel and energy purchases [(a)]	(49)	46	(70)	(34)	119
Unrealized gain (loss) on commodity contracts					
Operating revenues [(b)]	$ (128)	$ 81	$ (41)	$ 60	$ 265
Energy expenses [(b)]	44	26	(2)	(123)	48
Realized and unrealized gain (loss) on interest rate contracts					
Interest expense and other finance charges	$ —	$ 4	$ 1	$ —	$ 29

(a) Does not include those derivative instruments that settle through physical delivery.
(b) Presented as "Unrealized gain (loss) on derivative instruments" on the Condensed Consolidated Statements of Operations.

Contract Terminations

Commodity Hedge Terminations. In March and April 2022, Talen and a commercial counterparty terminated certain outstanding economic hedges that were scheduled to be priced and delivered from April 2022 through December 2022. As a result, Talen realized a $124 million termination loss in the nine months ended September 30, 2022 (Predecessor) and settled the obligation on a monthly basis through January 2023. The realized termination losses are presented as "Energy revenues" on the Condensed Consolidated Statements of Operations and repayments are presented as "Derivatives with financing elements" on the Condensed Consolidated Statement of Cash Flows.

In May 2022, certain commodity counterparties terminated power and natural gas agreements with a carrying value and fair value of $(33) million prior to the agreements' scheduled maturity dates. Accordingly, for the nine months ended September 30, 2022 (Predecessor), Talen recognized a $33 million net loss presented as either "Energy revenues" or "Fuel and energy purchases" on the Condensed Consolidated Statements of Operations.

Interest Rate Swap Terminations. In May 2022, certain financing counterparties terminated interest rate swap agreements with a carrying value and fair value of $11 million prior to the agreements' scheduled termination dates. The total notional amount terminated was approximately $500 million. As a result, Talen recognized a realized gain of $11 million to "Interest expense and other finance charges" on the Condensed Consolidated Statements of Operations during the nine months ended September 30, 2022 (Predecessor).

6. Revenue

The disaggregation of our operating revenues for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
			May 18 through	January 1 through	Nine Months Ended
	September 30, 2023	September 30, 2022	September 30, 2023	May 17, 2023	September 30, 2022
Capacity revenues	$ 44	$ 82	$ 70	$ 108	$ 329
Electricity sales and ancillary services, ISO/RTO	558	1,006	688	281	1,940
Physical electricity sales, bilateral contracts, other	35	45	41	62	234
Other revenue	29	—	44	27	—
Total revenue from contracts with customers	**666**	**1,133**	**843**	**478**	**2,503**
Realized and unrealized gain (loss) on derivative instruments	(150)	(207)	(26)	732	(489)
Operating revenues	**$ 516**	**$ 926**	**$ 817**	**$ 1,210**	**$ 2,014**

Accounts Receivable

Accounts receivable, net presented on the Condensed Consolidated Balance Sheets were:

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Customer accounts receivable	$ 70	$ 350
Other accounts receivable	98	58
Accounts receivable, net	**$ 168**	**$ 408**

There have been no significant changes in accounts receivable other than normal billing and collection transactions. See Note 5 for additional information on Talen's credit risk on the carrying value of its receivables.

Deferred Revenue

Deferred revenues that were (i) presented as a liability on the Condensed Consolidated Balance Sheets as of September 30, 2023 (Successor) and December 31, 2022 (Predecessor) or (ii) recognized as revenue on the Condensed Consolidated Statements of Operations were not material.

Future Performance Obligations

In the normal course of business, Talen has future performance obligations for capacity sales awarded through market-based capacity auctions and (or) for capacity sales under bilateral contractual arrangements.

As of September 30, 2023 (Successor), the expected future period capacity revenues subject to unsatisfied or partially unsatisfied performance obligations were:

	2023 [(a)]	2024	2025	2026	2027
Expected capacity revenues	$ 44	$ 170	$ 70	$ 3	$ 1

(a) For the period from October 1, 2023 through December 31, 2023.

The PJM capacity auctions for the 2025/2026 PJM Capacity Year and for any years thereafter have not yet been held. See Note 12 for additional information on the PJM RPM and auctions.

7. Income Taxes

The components of "Income tax benefit (expense)" for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Federal	$ (3)	$ (1)	$ (6)	$ (15)	$ (9)
State	(1)	(7)	(1)	(2)	(7)
Current income taxes	**(4)**	**(8)**	**(7)**	**(17)**	**(16)**
Federal	19	54	4	(184)	141
State	1	10	—	(11)	(22)
Deferred income taxes	**20**	**64**	**4**	**(195)**	**119**
Investment tax credit	—	—	—	—	1
Income tax benefit (expense)	**$ 16**	**$ 56**	**$ (3)**	**$ (212)**	**$ 104**
Income (loss) before income taxes	$ (92)	$ (356)	$ (42)	$ 677	$ (1,558)
Effective income tax rate	**17.4 %**	**15.7 %**	**(7.1)%**	**31.3 %**	**6.7 %**

Effective Tax Rate Reconciliations

The reconciliations of the effective tax rate for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Income (loss) before income taxes	$ (92)	$ (356)	$ (42)	$ 677	$ (1,558)
Income tax benefit (expense)	16	56	(3)	(212)	104
Effective tax rate [(a)]	**17.4 %**	**15.7 %**	**(7.1)%**	**31.3 %**	**6.7 %**
Federal income tax statutory tax rate	21 %	21 %	21 %	21 %	21 %
Income tax benefit (expense) computed at the federal income tax statutory tax rate	$ 19	$ 74	$ 9	$ (143)	$ 326
Income tax increase (decrease) due to:					
State income taxes, net of federal benefit	3	18	1	(34)	79
Change in valuation allowance	(12)	72	(10)	129	(210)
Permanent differences	3	(115)	—	(16)	(127)
Nuclear decommissioning trust taxes	3	7	(3)	(9)	35
Reorganization adjustments	—	—	—	(138)	—
Investment tax credit	—	—	—	—	1
Other	—	—	—	(1)	—
Income tax benefit (expense)	**$ 16**	**$ 56**	**$ (3)**	**$ (212)**	**$ 104**

(a) The effective tax rate for the Successor period differed from the statutory rate primarily due to the change in valuation allowance during the period.

Reorganization Adjustments

The Company evaluated the tax impact of the Restructuring, including the change in control resulting from Emergence. In Chapter 11 bankruptcy cases, the cancellation of debt income realized upon emergence is excludable from taxable income but results in reduction of tax attributes. As a result of Emergence, the Successor experienced an ownership change under Section 382 of the Code, which is anticipated to subject certain remaining tax attributes to an annual limitation. States generally have similar tax attribute limitation rules following an ownership change. See Note 3 for more information on the Restructuring. Upon Emergence, TES also applied fresh start accounting. As a result, deferred tax assets and liabilities were adjusted based on the Successor GAAP financial statements. See Note 4 for more information on fresh start accounting.

Valuation Allowance

Management assesses the available positive and negative evidence to estimate whether it is more likely than not that sufficient future taxable income will be generated to permit use of existing deferred tax assets. The assessment of future taxable income includes the scheduled reversal of taxable temporary differences, projected future taxable income, tax planning strategies and results of recent operations. For the period from January 1 through May 17, 2023 (Predecessor), Talen recognized a $129 million benefit for the reduction of federal and state valuation allowance. This release of valuation allowance was caused by tax attribute reduction from the cancellation of debt income realized upon Emergence. For the period from May 18 through September 30, 2023 (Successor), Talen recognized a $10 million expense for the increase in federal and state valuation allowance, mainly due to increased pre-tax losses. For the period from July 1 through September 30, 2023 (Successor), Talen recognized a $12 million expense for the increase in federal and state valuation allowance, mainly due to increased pre-tax losses. For the nine-month period ended September 30, 2022 (Predecessor), Talen recognized a $210 million expense for the increase in federal and state valuation allowances, primarily related to pre-tax losses incurred during the period. At each period, management will continue to assess the available positive and negative evidence to determine the need for a valuation allowance.

Inflation Reduction Act of 2022

Under the Inflation Reduction Act, the nuclear production tax credit program provides qualified nuclear power generation facilities with a $3 per MWh transferable credit for electricity produced and sold to an unrelated party during each tax year. Electricity produced and sold by Susquehanna after December 31, 2023 through December 31, 2032 is expected to qualify for the credit, which is subject to potential adjustments. Such adjustments include inflation escalators, a five-times increase in tax credit value (to $15 per MWh) if the qualifying generation facility meets prevailing wage requirements, and a pro-rata decrease in tax credit value once the annual gross receipts of a qualifying generation facility exceed $25 per MWh. We believe Susquehanna will qualify for these adjustments. The annual pro-rata decrease will be based upon a portion of the qualifying generation facility's prior year gross receipts (as defined and calculated per implementation guidelines to be issued). The credit is eliminated when the annual gross receipts are equivalent to $43.75 per MWh (adjusted for inflation). Susquehanna generated approximately 18 million MWh each year from 2020 through 2022.

These changes are expected to increase Susquehanna Nuclear's income and impact the expected returns for Talen's potential future clean energy development projects. However, the Inflation Reduction Act's provisions are subject to implementation regulations, whose terms are not yet known, and which are subject to amendment by future legislation and, as such, Talen cannot fully predict the impacts to its liquidity or results of operations.

8. Inventory

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Coal	$ 137	$ 189
Oil products	76	61
Fuel inventory for electric generation	**213**	**250**
Materials and supplies, net	64	195
Environmental products	21	12
Inventory, net	**$ 298**	**$ 457**

Inventory was adjusted to fair value at Emergence. See Note 4 for additional information.

Net realizable value and obsolescence charges on coal and fuel oil inventories are presented as "Other operating income (expense), net" on the Condensed Consolidated Statements of Operations. Such non-cash charges were not material for the three months ended September 30, 2023 (Successor) and for the period from May 18 through September 30, 2023 (Successor), and such non-cash charges were $37 million for the period from January 1 through May 17, 2023 (Predecessor).

Net realizable value and obsolescence charges for the period from January 1 through May 17, 2023 (Predecessor) includes an aggregate $24 million charge for Brandon Shores coal and materials and supplies inventories. See Note 10 for additional information on the Brandon Shores recoverability assessment.

9. Nuclear Decommissioning Trust Funds

	Successor				Predecessor			
	September 30, 2023				December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents	$ 11	$ —	$ —	$ 11	$ 6	$ —	$ —	$ 6
Equity securities	486	508	64	930	521	485	69	937
Debt securities	523	—	19	504	507	1	31	477
Receivables (payables), net	11	—	—	11	(20)	—	—	(20)
Nuclear decommissioning trust funds	**$ 1,031**	**$ 508**	**$ 83**	**$ 1,456**	**$ 1,014**	**$ 486**	**$ 100**	**$ 1,400**

See Note 14 for additional information on the NDT fair value. There were no available-for-sale debt securities with credit losses as of September 30, 2023 or December 31, 2022.

As of September 30, 2023, there was no intent to sell available-for-sale debt securities with unrealized losses, and it is not more likely than not that each of these investments will be required to be sold before the recovery of its amortized cost. The aggregate related fair value of available-for-sale debt securities with unrealized losses for the Successor as of September 30, 2023 were:

	Fair Value	Unrealized Losses
Corporate debt securities	$ 134	$ (5)
Municipal debt securities	76	(3)
U.S. Government debt securities	213	(11)
Total debt securities in unrealized loss position [(a)]	**$ 423**	**$ (19)**

(a) Unrealized losses primarily attributed to widening credit spreads.

There were securities for the Successor in an unrealized loss position for a duration of one year or longer. The aggregate fair value of these securities and unrealized losses as of September 30, 2023 were:

	Fair Value	Unrealized Losses
Corporate debt securities	$ 72	$ (3)
Municipal debt securities	45	(2)
Total debt securities in unrealized loss position for one year or longer	**$ 117**	**$ (5)**

The contractual maturities for available-for-sale debt securities presented on the Condensed Consolidated Balance Sheets were:

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Maturities within one year	$ 42	$ 32
Maturities within two to five years	190	173
Maturities thereafter	272	272
Debt securities, fair value	**$ 504**	**$ 477**

The sales proceeds, gains, and losses for available-for-sale debt securities for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Sales proceeds of nuclear decommissioning trust funds investments [(a)]	$ 492	$ 462	$ 763	$ 839	$ 1,590
Gross realized gains	1	3	1	7	7
Gross realized (losses)	(5)	(8)	(7)	(12)	(35)

(a) Sales proceeds are used to pay income taxes and trust management fees. Remaining proceeds are reinvested in the trust.

10. Property, Plant and Equipment

		Successor			Predecessor		
		September 30, 2023			December 31, 2022		
	Estimated Useful Life (years)	Gross Value	Accumulated Provision	Carrying Value	Gross Value	Accumulated Provision	Carrying Value
Electric generation	3-27	$ 3,151	$ (63)	$ 3,088	$ 10,596	$ (6,797)	$ 3,799
Nuclear fuel	1-6	227	(33)	194	491	(316)	175
Other property and equipment	1-20	292	(12)	280	157	(82)	75
Intangible assets	2-26	—	—	—	137	(64)	73
Capitalized software	1-5	6	(1)	5	102	(95)	7
Construction work in progress		279	—	279	576	—	576
Property, plant and equipment, net		**$ 3,955**	**$ (109)**	**$ 3,846**	**$ 12,059**	**$ (7,354)**	**$ 4,705**

Property, plant, and equipment was adjusted to fair value after Emergence. See Note 4 for additional information.

The components of "Depreciation, amortization and accretion" presented on the Condensed Consolidated Statements of Operations were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Depreciation expense [a]	$ 53	$ 104	$ 76	$ 173	$ 330
Amortization expense [b]	—	3	1	4	9
Accretion expense [c]	13	20	17	24	59
Qualifying derivative (gain) loss, net [d]	—	(1)	—	(1)	(2)
Depreciation, amortization, and accretion	**$ 66**	**$ 126**	**$ 94**	**$ 200**	**$ 396**

(a) Electric generation and other property and equipment.
(b) Intangible assets and capitalized software.
(c) ARO and accrued environmental cost accretion. See Note 11 for additional information.
(d) Reclassified from AOCI.

The cost of nuclear fuel is charged to "Nuclear fuel amortization" on the Condensed Consolidated Statements of Operations.

Favorable Supply Contracts. At Emergence, the Company recognized certain favorably priced nuclear fuel supply contracts at their fair value of approximately $109 million. See Note 4 for additional information.

Amortization expense was $24 million for the three months ended September 30, 2023 (Successor) and $38 million for the period from May 18 through September 30, 2023 (Successor). Amortization expense is presented as "Nuclear fuel amortization" on the Condensed Consolidated Statements of Operations. The carrying value of these assets as of September 30, 2023 was $71 million, presented as "Other noncurrent assets" on the Condensed Consolidated Balance Sheets. Estimated amortization expense for the remainder of this year and thereafter is:

	2023 [a]	2024	2025	After 2026 [b]
Estimated amortization expense	$ 15	$ 33	$ 14	$ 9

(a) For the period from October 1, 2023 through December 31, 2023.
(b) The favorable supply contracts expire in 2028.

2023 Impairments

Brandon Shores Asset Group. Brandon Shores is required by contract and permit to cease coal combustion by December 31, 2025. In the first quarter 2023, Talen canceled its plan to convert Brandon Shores to an oil combustion facility due to an increase in expected conversion costs. This decision triggered a recoverability assessment of the carrying value of the Brandon Shores asset group. Additionally, Brandon Shores notified PJM that it will deactivate electric generation on June 1, 2025.

The recoverability analysis indicated that the Brandon Shores asset group carrying value exceeded its future estimated undiscounted cash flows, which required an impairment charge to amend the asset group's carrying value of its property, plant and equipment to its estimated fair value. The estimated fair value of the asset group was determined by a discounted cash flow technique that utilized significant unobservable inputs including an 11% discount rate. We believe that the utilized discount rate and other discounted cash flow assumptions are consistent with those used by principal market participants. Such assumptions consider available evidence regarding the prospects of future cash flows for the Brandon Shores asset group, including, but not limited to estimated available future generation volumes and useful lives, capacity prices, energy prices, operating costs, capital expenditures, and environmental costs. Accordingly, in 2023, Talen recognized a non-cash pre-tax impairment charge on its undepreciated property, plant and equipment related to Brandon Shores of $361 million for the period from January 1 through May 17, 2023 (Predecessor), which is presented as "Impairments" on the Condensed Consolidated Statements of Operations.

11. Asset Retirement Obligations and Accrued Environmental Costs

	Successor	Predecessor
	September 30, 2023	**December 31, 2022**
Asset retirement obligations	$ 455	$ 751
Accrued environmental costs	19	35
Total asset retirement obligations and accrued environmental costs	474	786
Less: asset retirement obligations and accrued environmental costs due within one year [(a)]	22	—
Less: amounts presented as "Liabilities subject to compromise"	—	219
Asset retirement obligations and accrued environmental costs due after one year	**$ 452**	**$ 567**

(a) Presented as "Other current liabilities" as of September 30, 2023 (Successor) and as "Liabilities subject to compromise" as of December 31, 2022 (Predecessor) on the Condensed Consolidated Balance Sheets.

As a result of the Restructuring: (i) certain portions of ARO and accrued environmental costs were presented as "Liabilities subject to compromise" on the Condensed Consolidated Balance Sheets as of December 31, 2022 (Predecessor), and (ii) ARO and accrued environmental costs were adjusted to fair value upon completion of the Restructuring. These adjustments included establishing a new discount rate for the AROs, which resulted in a decrease to the value of the obligations for our nuclear facility and an increase in the value of our non-nuclear obligations. See Note 4 for additional information.

Asset Retirement Obligations

The changes of the ARO carrying value during the periods were:

	ARO Rollforward
Carrying value, December 31, 2021 (Predecessor)	**$ 760**
Obligations settled	(9)
Changes in estimates and (or) settlement dates	(1)
Obligations incurred	7
Accretion expense	57
Carrying value, September 30, 2022 (Predecessor)	**$ 814**
Carrying value, December 31, 2022 (Predecessor)	**$ 751**
Obligations settled	(11)
Changes in estimates and (or) settlement dates	3
Accretion expense	23
Carrying value, May 17, 2023 (Predecessor)	**$ 766**
Fair value adjustment at Emergence	(321)
Obligations settled	(7)
Accretion expense	17
Carrying value, September 30, 2023 (Successor)	**$ 455**

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Supplemental Information		
Nuclear [(a)]	$ 208	$ 564
Non-Nuclear [(b)]	247	187
Carrying value	**$ 455**	**$ 751**

(a) Obligations are expected to be settled with available funds in the NDT at the time of decommissioning.
(b) Certain obligations are: (i) partially supported by surety bonds, some of which have been collateralized with cash and (or) LCs, or (ii) partially prefunded under phased installment agreements.

See Note 14 for additional information on Susquehanna Nuclear's NDT.

See "Talen Montana Financial Assurance" in Note 12 for additional information on Talen Montana's requirement to provide financial assurance related to certain environmental decommissioning and remediation liabilities related to the Colstrip Units.

12. Commitments and Contingencies

Legal Matters

Talen is involved in certain legal proceedings, claims and litigation. While we believe that we have meritorious positions and will continue to defend our positions vigorously in these matters, we may not be successful in our efforts. If an unfavorable outcome is probable and can be reasonably estimated, a liability is recognized. In the event of an unfavorable outcome, the liability may be in excess of amounts currently accrued. Because of the inherently unpredictable nature of legal proceedings and the wide range of potential outcomes for any such matter, no estimate of the possible losses in excess of amounts accrued, if any, can be made at this time regarding the matters specifically described below. As a result, additional losses actually incurred in excess of amounts accrued could be substantial.

Talen Restructuring. Upon Emergence in May 2023, pursuant to the Plan of Reorganization, the Debtors' liability was discharged for certain claims arising prior to commencement of the Restructuring. The Debtors may still be liable for certain post-petition claims, including claims arising after commencement of the Restructuring, claims asserted against Talen Energy Corporation, which are unimpaired under the Plan of Reorganization, and claims asserted by parties that did not receive notice of the Restructuring under applicable bankruptcy law. We will continue to defend our positions against any such claims. See Note 3 for additional information on the Restructuring.

Montana Hydroelectric Litigation. Talen Montana is a defendant in litigation in the U.S. District Court for the District of Montana relating to its past ownership and operation of hydroelectric generation facilities in Montana, which were sold to NorthWestern in November 2014 (the "Montana Hydroelectric Sale"). In connection with the sale, Talen Montana agreed to retain liability with respect to this litigation, if any, attributable to time periods prior to closing of the sale.

The lawsuit was originally filed in 2003 and alleges that the streambeds underlying the facilities are owned by the State of Montana (the "State"), and that Talen Montana owes the State compensation for the use of the streambeds. In August 2023, the court held in favor of Talen Montana with respect to streambed segments underlying six of the seven facilities. Regarding the one streambed segment that the court found belongs to the State, the court stated that Talen Montana and NorthWestern will be required to compensate the State for past, present and future use. This holding may be appealed by any of the parties. Damages and defenses related to this proceeding will be addressed in a future adjudication. Nonetheless, because Talen Montana's liability on all claims asserted by the State was discharged under the Plan of Reorganization, Talen Montana does not expect any further liability from this matter.

ERCOT Weather Event Lawsuits. Beginning in March 2021, Talen subsidiaries that own the Barney Davis, Nueces Bay and Laredo generation facilities along with many other market participants in ERCOT were sued in multiple Texas state courts. The lawsuits were consolidated into a multi-district litigation pre-trial court ("MDL"). In these suits, the plaintiffs allege, among other things, that they suffered loss of life, personal injury and/or property damage due to the defendants' failure to properly prepare their facilities to withstand extreme winter weather and other operational failures during Winter Storm Uri in February 2021. Numerous insurance company plaintiffs also seek to recover payments to policyholders for damage to residential and commercial properties caused by the storm. The plaintiffs seek unspecified compensatory, punitive and other damages. In January 2023, the MDL court denied a motion to dismiss filed by the generation defendants, who are currently seeking appellate review. Plaintiffs asserting prepetition Winter Storm Uri claims are limited to recovering any damages from the Talen defendants' insurers pursuant to the Plan of Reorganization. Certain plaintiffs filed lawsuits asserting Winter Storm Uri claims after commencement of the Restructuring. If any of these post-commencement plaintiffs did not receive effective notice of the Restructuring under applicable bankruptcy law, they may not be subject to the terms of the Plan of Reorganization. Talen cannot predict the outcome of this matter for any such claims or its effect on Talen.

In June 2021, TEC intervened in five cases in which certain market participants are challenging the validity of two PUCT orders directing ERCOT to ensure energy prices were at their maximum of $9,000 per MWh during Winter Storm Uri. One case has since been dismissed, one case is pending in the Texas Third Court of Appeals and two cases are pending in State District Court in Travis County, Texas. In March 2023, the Third Court of Appeals issued an opinion in *Luminant v. PUCT* that, in part, reversed and remanded the PUCT orders directing ERCOT to ensure prices were at their maximum of $9,000 per MWh during Winter Storm Uri. The PUCT (along with TEC and others) filed petitions for review with the Texas Supreme Court, which were granted on September 29, 2023. Talen cannot predict the timing or outcome of these cases or their ultimate effect on the PUCT's orders during Winter Storm Uri; however, changes in one or more of the PUCT's orders could have a material adverse effect on Talen's results of operations and liquidity.

PPL/Talen Montana Litigation. In October 2018, the Talen Montana Retirement Plan filed a class action suit in Montana state court against PPL, its affiliates and certain officers and directors, claiming that PPL and its directors improperly made a distribution of $733 million of net proceeds from the Montana Hydroelectric Sale from Talen Montana to PPL, leaving Talen Montana without adequate funds to pay its obligations. Plaintiff seeks compensatory and punitive damages. In January 2020, PPL filed a motion to dismiss this suit for, among other things, lack of personal jurisdiction. In September 2020, the Montana state court denied PPL's motion to dismiss, but granted a stay of the Montana claims until resolution of the Delaware case described below.

In November 2018, PPL filed a lawsuit in Delaware Court of Chancery (the "Delaware Court") against Talen and certain affiliates seeking, among other things, indemnity from Talen for the claims asserted in the Montana state lawsuit and a declaratory judgment that such claims asserted in the Montana state lawsuit are without merit and that Talen entities do not have standing to bring such claims. In October 2019, the Delaware Court granted Talen defendants' motion to dismiss one of PPL's claims but denied Talen defendants' other requests for dismissal.

Talen Montana then filed an adversary complaint against PPL and its affiliates in the Bankruptcy Court, which asserts claims similar to those asserted in the Montana action. In September 2022, the PPL defendants filed counterclaims substantially similar to the claims asserted in the Delaware Court. In June 2023, the Bankruptcy Court denied the PPL defendants' motion for partial summary judgment and set the case for trial in February 2024. The parties filed motions for summary judgment on certain claims and defenses in October. The Talen defendants' liability on all claims asserted by the PPL defendants, except for claims asserted against TEC, was discharged under the Plan of Reorganization. Talen Montana and its affiliates believe that PPL's claims are without merit and intend to vigorously prosecute their own claims and defend against the counterclaims. Talen Montana and Talen cannot predict the outcome of this matter or its effect on Talen Montana and Talen; however, a material positive or adverse judgment could affect Talen's results of operations and liquidity.

Pension Litigation. In November 2020, four former Talen employees filed a lawsuit in the U.S. District Court for the Eastern District of Pennsylvania against TES, TEC, the TERP, the TERP committee, and (as amended) ten former retirement plan committee members alleging that they are owed enhanced benefits under the TERP. In September 2023, the parties reached a tentative agreement to settle all claims on a class-wide basis, inclusive of attorneys' fees, in exchange for $20 million, subject to negotiation of mutually acceptable definitive agreements and court approval of the final settlement. A pre-tax charge of $17 million, net of expected recoveries from Talen's liability insurance policies, was recognized and presented as "Other non-operating income (expense), net" on the Condensed Consolidated Statement of Operations for the three months ended September 30, 2023 (Successor) and the period from May 18 through September 30, 2023 (Successor).

We expect a portion of the settlement to be paid by the TERP with the remainder paid by the Company, net of expected insurance recoveries. The amount paid by the TERP will be the full amount of the settlement less any attorneys' fee award approved by the court and certain expenses associated with implementing the settlement. TES, at its discretion, may elect to fund a contribution into the TERP to cover settlement payments paid by the TERP.

If the settlement is not consummated and the plaintiffs prevail on their claims, a material adverse judgment could have an adverse effect on the TERP's assets as well as Talen's results of operations and liquidity. No assurance can be provided that the final settlement agreement will be consummated as expected or if at all. Accordingly, we cannot predict the outcome of this matter or its effect on Talen if the settlement is not consummated as expected or if the matter is litigated to conclusion.

Railroad Surcharge Litigation. In September 2019, TES and certain of its subsidiaries filed suit in the U.S. District Court for the Southern District of Texas, alleging that the four major railroads in the United States violated U.S. antitrust laws by conspiring during the periods from July 2003 through December 2008 to use fuel surcharges as a means to raise price for rail freight shipments. Numerous other plaintiff shippers in various jurisdictions throughout the United States have filed similar lawsuits. The Talen plaintiffs claim that they paid higher rail freight shipment rates than they otherwise would have paid absent the alleged conspiracy and seek treble damages under the antitrust laws. The litigation has been consolidated in the District Court for the District of Columbia with similar lawsuits under the multi-district litigation rules. At this time, Talen cannot predict the outcome of this matter.

Spent Nuclear Fuel Litigation. Substantial uncertainty exists regarding the nuclear industry's permanent disposal of spent nuclear fuel ("SNF"). Federal law requires the U.S. Government to provide for the permanent disposal of commercial SNF fuel and prior to May 2014, nuclear generation facility operators were required to contribute to a fund to pay for the transportation and disposal of SNF. In May 2014, this fee was reduced to zero. Talen cannot predict if or when the U.S. Government will increase this fee in the future, which could result in significant additional costs to Susquehanna Nuclear.

In addition, in May 2011, Susquehanna Nuclear entered into an agreement with the U.S. Government to settle the U.S. Government's breach of contract to accept and dispose of SNF by the statutory deadline. The settlement agreement, which has been extended four times, requires the U.S. Government to reimburse certain costs to temporarily store SNF at Susquehanna and requires Susquehanna Nuclear to waive any claims against the U.S. Government for costs paid or injuries sustained related to temporarily storing SNF. A claim for such costs was submitted under the agreement in 2023 for costs incurred in 2022. In May 2023, this agreement was extended through the end of 2025. We cannot be certain that subsequent amendments will extend these arrangements beyond 2025.

Other. In the normal course of Talen's business, we are party to various legal proceedings, claims and litigation arising from current or past operations. While the outcome of these matters is uncertain, the likely results are not presently expected, either individually or in the aggregate, to have a material adverse effect on our financial condition or results of operations.

Regulatory Matters

Talen is subject to regulation by federal and state agencies and other bodies that exercise regulatory authority in the various regions where we conduct business, including but not limited to: FERC; the Department of Energy; Federal Communications Commission; NRC; NERC; public utility commissions in various states in which we conduct business; and RTOs and ISOs in the regions in which we conduct business. Talen is party to proceedings before such agencies arising in the ordinary course of business and has other regulatory exposure due to new or amended regulations promulgated by such agencies from time to time. While the outcome of these regulatory matters and proceedings is uncertain, the likely results are not expected, either individually or in the aggregate, to have a material adverse effect on our financial condition or results of operations, although the effect could be material to our results of operations in any interim reporting period.

PJM MOPR. In July 2021, PJM filed proposed tariff language to significantly reduce the application of the existing PJM MOPR by applying it only when the state requires an entity to act in a certain manner in the capacity market in exchange for receiving a subsidy. FERC did not act on PJM's July 2021 filing, and the PJM MOPR tariff language went into effect in September 2021. Appeals relating to the narrowed PJM MOPR are pending before the U.S. Court of Appeals for the Third Circuit. As a result, the final impacts on Talen's financial condition, results of operations and liquidity are not known at this time.

PJM 2024/2025 Base Residual Auction. PJM delayed the release of the 2024/2025 PJM Base Residual Auction results due to certain issues. In December 2022, PJM filed a request with FERC to revise its tariff to enable PJM to adjust an auction parameter and to make adjustments to subsequent auction outcomes if similar issues arise in future auctions. In February 2023, FERC approved PJM's filing. Rehearing of FERC's order was denied by operation of law in April 2023, and several parties have appealed the order to the U.S. Court of Appeals for the Third Circuit. On February 27, 2023, PJM released its 2024/2025 auction results.

PJM Market Seller Offer Cap. In March 2021, FERC responded to complaints filed by the PJM IMM on behalf of PJM and various consumer advocates alleging that the PJM MSOC was above a competitive offer level and was, therefore, unjust and unreasonable. In September 2021, FERC issued an order requiring the PJM ACR for each generator to be determined administratively by the PJM IMM. In August 2023, the U.S. Court of Appeals for the District of Columbia Circuit denied petitions by Talen and others for review of FERC's order. The final impacts of this order on Talen's financial condition, results of operations and liquidity are not known at this time.

PJM Capacity Market Reform. In February 2023, the PJM Board directed PJM and its stakeholders to resolve: (i) key issues that address the energy transition taking place in PJM; and (ii) issues observed from Winter Storm Elliott. The PJM Board directive included reliability risks, risk drivers and resource availability. The stakeholder process is referred to as Critical Issue Fast Path ("CIFP") on resource adequacy. On October 13, 2023, PJM made a filing at FERC regarding certain capacity market reforms developed through the CIFP process. It is unclear whether PJM's reforms will be accepted by FERC. At this time, Talen cannot fully predict the impacts of PJM's reforms on its operations and liquidity.

In June 2023, FERC accepted a request by PJM to delay certain PJM Base Residual Auctions in order to propose additional changes to the PJM RPM. The delay schedules the PJM Base Residual Auctions for 2025/2026 in June 2024, for 2026/2027 in December 2024, for 2027/2028 in June 2025, and for 2028/2029 in December 2025. Although PJM has established dates for the next four auctions, there is no guarantee that the auctions will take place on those dates or at all. Depending on the ultimate outcome of matters related to PJM's capacity auctions, capacity revenues in PJM could be affected, but the final impacts on Talen's financial condition, results of operations and liquidity are not known at this time.

Winter Storm Elliott. During December 2022, as a result of Winter Storm Elliott, PJM experienced extreme cold weather conditions that contributed to PJM declaring a Maximum Generation Emergency Action. Certain of Talen's generation facilities failed to meet the Capacity Performance requirements set forth by PJM, while Talen's remaining generation facilities met or exceeded their capacity obligations. As a result, Talen has: (i) incurred certain Capacity Performance penalties charged by PJM for certain generation facilities and (ii) earned bonus revenues from PJM for other generation facilities. In April 2023, PJM notified Talen of an update to the expected Capacity

Performance penalties incurred by certain of Talen's generation facilities and bonus revenues earned by other generation facilities, and Talen recognized in 2023 and 2022 an aggregate penalty of $51 million, net of expected bonus revenues. Talen and its affiliates filed complaints against PJM at FERC disputing a portion of the penalties assessed by PJM, along with other complainants, and in September 2023, PJM filed for FERC approval a settlement agreement that would resolve all Winter Storm Elliot complaints, including those filed by Talen. The settlement agreement would result in a 31.7% reduction in the total penalties assessed on all capacity market sellers, including Talen, as well as an additional $7.5 million credit to Talen. As filed, the settlement agreement would reduce Talen's aggregate penalty, net of expected bonus revenues, from $51 million to approximately $28 million. No assurance, however, can be provided that the settlement will be approved. In addition, in December 2022, FERC and NERC opened a joint inquiry into the operations of the bulk-power system regarding Winter Storm Elliott. FERC and NERC completed their inquiry and issued a final report in November 2023.

ERCOT Market Systemic Risks. Due to the effects of Winter Storm Uri, certain market participants in ERCOT defaulted on settlements and caused a deficit of payments to ERCOT. In May 2022, ERCOT reported a cumulative aggregate payment deficit of approximately $2.3 billion as result of winter storm events. As a result, ERCOT instituted "short payments" that delay the remittance of cash for an uncertain period of time to non-defaulting market participants and will only be paid as ERCOT recovers money from defaulting parties or through the collection of default uplift payments. In September 2022, ERCOT reached a settlement agreement with the largest defaulting co-op. In October 2022, Talen made disbursement elections to receive approximately $5 million for its portion of the $1.3 billion owed to applicable market participants.

In January 2023, the PUCT adopted the PUCT PCM market design in response to a directive contained within Texas Senate Bill 3 from 2021 to address market reliability concerns in Texas. The details of how the PUCT PCM market will operate are to be developed by the PUCT, ERCOT and the ERCOT stakeholder group. In January 2023, the PUCT directed ERCOT to evaluate bridging options to retain existing assets and build new dispatchable generation until the PUCT PCM can be fully implemented. In response, the PUCT approved a multi-step Operating Reserve Demand Curve floor as a short-term bridge solution. There remains significant uncertainty surrounding the details of the proposed PUCT PCM design, and the timing for implementation. At this time, Talen cannot fully predict the impacts of the PUCT PCM market design, when and if implemented, on its results of operations and liquidity.

Brandon Shores Reliability Impact Assessment. In April 2023, Talen notified PJM that it will deactivate electric generation at Brandon Shores on June 1, 2025. In June 2023, PJM notified Brandon Shores that the units were needed for reliability. Talen subsequently notified PJM that it does not agree to continue to operate Brandon Shores under a Reliability Must Run arrangement. Discussions with PJM are ongoing and may result in Brandon Shores continuing to operate for some period of time until transmission constraints hindering reliability are relieved by PJM.

H.A. Wagner Deactivation. In October 2023, for economic reasons, Talen provided a notice to PJM of its intent to deactivate H.A. Wagner as of June 1, 2025. The coal-to-fuel oil conversion of H.A. Wagner Unit 3 is expected to be completed by the end of 2023 and will allow the generation facility to serve as a capacity resource until deactivation. H.A. Wagner has a capacity of 834 MW. PJM is conducting a reliability impact analysis, with results expected no later than February 2024.

Environmental Matters

Extensive federal, state and local environmental laws and regulations are applicable to our business, including those related to air emissions, water discharges, and hazardous and solid waste management. From time to time, in the ordinary course of our business, Talen may become involved in other environmental matters or become subject to other, new or revised environmental statutes, regulations or requirements.

It may be necessary for us to modify, curtail, replace or cease operation of certain facilities or performance of certain operations to comply with statutes, regulations and other requirements imposed by regulatory bodies, courts or environmental groups. We may incur costs to comply with environmental laws and regulations, including increased capital expenditures or operation and maintenance expenses, monetary fines, penalties or other restrictions, which could be material. Legal challenges to environmental permits or rules add to the uncertainty of estimating the future cost of complying with these permits and rules. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed.

Water and Waste. Changes made by the EPA to the EPA CCR Rule and the EPA ELG Rule in 2020 allow coal generation facility operators to request an extension to compliance deadlines if the facility commits to cessation of coal-fired generation by the end of 2028. Pursuant to Talen's plans to cease wholly owned coal operations, Talen requested extensions for compliance under these rules for certain of its generation facilities; some have been approved and some are still under review. The most significant extension under review is the EPA CCR Rule Part A extension request for Montour Ash Impoundment 1, and a negative result would have a significant impact on the closure plan for this impoundment.

In 2023, the EPA has proposed additional changes to the EPA ELG Rule and to the EPA CCR Rule. The EPA ELG Rule proposal does not add treatment requirements to Talen's coal-fired power generation facilities planning to cease the burning of coal by 2028, but it does propose discharge limits for waters collected from CCR units. With respect to the EPA CCR Rule, the EPA has proposed to impose new requirements on legacy CCR impoundments and CCR Management Units, which could affect several Talen facilities. Furthermore, the EPA's interpretations on the EPA CCR Rule continue to evolve through enforcement. At this time, Talen cannot predict the outcome of these various rule changes on the operations of its coal-fired generation facilities and its results of operations.

Air. Since 2016, the coal-fired generation facilities in which Talen has ownership, including Brunner Island, Montour, Keystone and Conemaugh, have been the subject of various efforts under the CAA to strengthen applicable nitrogen oxides ("NOx") emission limits. These include Section 126 petitions by downwind states, recommendations by the Ozone Transport Commission, and a ruling on Pennsylvania's RACT2 program by the U.S. District Court for the Southern District of New York. Although the petitions and recommendations are not withdrawn, the EPA's issuance of a federal implementation plan (the "FIP") with short-term (RACT2) NOx limits at these plants in 2022 resulting from the court case and the EPA's "Good Neighbor FIP" issued in June 2023 appear to have addressed open concerns by upwind states regarding NOx controls from Talen's and other coal plants.

However, both the Pennsylvania NOx RACT2 FIP and the preceding State Implementation Plan (the "SIP") NOx RACT are under review. The PA DEP agreed to stay the SIP standard while all the parties consider the FIP standards. The EPA FIP is in effect; however, it has since been appealed by other parties and Talen has intervened in the appellate proceeding. Lastly, in November 2022, Pennsylvania finalized its NOx RACT standards for all power generation facilities to address the EPA 2015 Ozone Standard. Affected Talen facilities have submitted permit applications demonstrating their compliance methods for the new standard. At this time, Talen cannot predict the outcome of these potential rule changes on the operations of its generation facilities and its results of operations.

To address the 2015 ozone standard, in June 2023, the EPA published the final rule covering the EPA CSAPR ozone season nitrogen oxide allowance trading program for 2023 and beyond. The final changes are known as the "Good Neighbor FIP." The EPA made some reductions in allowance allocations, among other changes, to minimize nitrogen oxide emissions during the Ozone Season. Texas, among other states, has received a favorable court ruling, essentially staying its participation in the updated program for 2023. Texas facilities are still subject to the previous version of EPA CSAPR, and Talen's facilities in Maryland, Pennsylvania and New Jersey are subject to the new rule. At this time, Talen cannot predict the long-term outcome of these rule changes on the operations of its generation facilities and its results of operations.

The EPA MATS Rule, which is the original EPA NESHAP for coal plants has been in effect since 2012. In April 2023, the EPA issued its EPA RTR for coal-fired generation facilities under the EPA NESHAP, which proposes changes to the EPA MATS Rule, most notably to reduce particulate matter emissions from coal plants. Talen submitted formal comments on the EPA RTR, indicating that the new EPA MATS Rule, if finalized, would unreasonably require Colstrip to install new control equipment. At this time, Talen cannot predict the outcome of this potential rule change on the operations of its generation facilities and its results of operations.

RGGI. In April 2022, Pennsylvania formally entered the RGGI program, with compliance set to begin on July 1, 2022. However, certain third parties filed lawsuits and appeals questioning the legality of the regulation and the implementation of RGGI in Pennsylvania was stayed. On November 1, 2023, the Commonwealth Court of Pennsylvania ruled RGGI was an invalid tax and voided the rulemaking, which could be appealed. At this time, Talen is unable to determine the full impact of the RGGI program, when and if implemented, on its results of operations and liquidity.

Federal Climate Change Actions. The current federal administration has identified climate change policy as a priority that includes, but is not limited to, greenhouse gas emission reductions. In May 2023, the EPA proposed a new rule under the CAA that would establish new source performance standards for new electric generating units and emission guidelines for existing EGUs for state implementation. The rule is expected to be finalized in mid-2024. The proposed guidelines would allow all existing EGUs to continue to operate until at least the end of 2031 without having to meet new greenhouse gas limits. Existing baseload-type EGUs, whether combustion turbines or coal-fired steam units (e.g., Colstrip), would be able to operate beyond 2031, but would be subject to Capacity Factor limits or greenhouse gas reduction requirements. Other EGUs would typically not require additional controls; however, EPA is considering further controls in the future. The proposed rule intends to require significant greenhouse gas reductions for large, baseload coal plants like Colstrip. However, until the rule is finalized, Talen is unable to determine the full impact of the proposed rule on its results of operations and liquidity.

Environmental Remediation. From time-to-time, Talen undertakes investigative or remedial actions in response to notices of violations, spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from our operations and undertakes similar actions necessary to resolve environmental matters that arise in the course of normal operations.

Future investigation or remediation work at sites currently under review, or at sites not currently identified, may result in additional costs, but at this time we are unable to determine if such investigation or remediation work will have a material adverse effect on our financial condition or results of operations.

Guarantees and Other Assurances

In the normal course of business, Talen enters into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. These agreements primarily support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or facilitate the commercial activities in which these subsidiaries engage. Such agreements may include guarantees, stand-by letters of credit issued by financial institutions, surety bonds issued by insurance companies, and indemnifications. In addition, they may include customary indemnifications to third parties related to asset sales and other transactions. Based on our current knowledge, the probability of expected material payment/performance for the guarantees and other assurances is considered remote.

Surety Bonds. Surety bonds provide financial performance assurance to third parties on behalf of certain subsidiaries for obligations including, but not limited to, environmental obligations and AROs. In the event of nonperformance by the applicable subsidiary, the beneficiary would make a claim to the surety, and the Company would be required to reimburse any payment by the surety. Talen's liability with respect to any surety bond is released once the obligations secured by the surety bond are performed. Surety bond providers generally have the right to request additional collateral or request that such bonds be replaced by alternate surety providers, in each case upon the occurrence of certain events. As of September 30, 2023 (Successor) and December 31, 2022 (Predecessor), the aggregate amount of surety bonds outstanding was $240 million and $248 million, including surety bonds posted on behalf of Talen Montana as discussed below. Included in TES's outstanding sureties as of September 30, 2023 is a bond in the amount of $10 million that was issued on behalf of Cumulus Data for support of its development and construction activities.

Talen Montana Financial Assurance. Pursuant to the Colstrip AOC, Talen Montana, in its capacity as the Colstrip operator, is obligated to close and remediate coal ash disposal impoundments at Colstrip. The Colstrip AOC specifies an evaluation process between Talen Montana and the MDEQ on the scope of remediation and closure activities, requires the MDEQ to approve such scope, and requires financial assurance to be provided to the MDEQ on approved plans. Each of the co-owners of the Colstrip Units have provided their proportional share of financial assurance to the MDEQ for estimates of coal ash disposal impoundments remediation and closure activities approved by the MDEQ.

TES has posted an aggregate $115 million of surety bonds to the MDEQ on behalf of Talen Montana's proportional share of remediation and closure activities as of September 30, 2023 (Successor) and $113 million as of December 31, 2022 (Predecessor). Talen Montana has agreed to reimburse TES and its affiliates in the event that these surety bonds are called. Talen Montana's surety bond requirements may increase due to scope changes, cost revisions and (or) other factors when the MDEQ conducts annual reviews of approved remediation and closure plans as required under the Colstrip AOC. The surety bond requirements will decrease as Colstrip's coal ash impoundments remediation and closure activities are completed.

Cumulus Digital Assurances. As of September 30, 2023, TES has issued LCs in the aggregate amount of $50 million to the lenders of the Cumulus Digital TLF. The LCs can be drawn upon, among other events, the acceleration of the loan due to a bankruptcy or other event of default by Cumulus Digital. The amount of the LCs will be decreased from time to time based on the outstanding principal balance of the Cumulus Digital TLF.

Additionally, Talen Energy Corporation has provided a guarantee to the lenders under the Cumulus Digital TLF for certain shortfalls in interest and principal payments by Cumulus Digital (up to a maximum of 23% of the principal amount of outstanding loans thereunder). The guarantee will terminate if the principal amount outstanding is reduced to $50 million or less. Amounts are not payable under the guarantee until all available amounts under the TES LCs described above have been drawn.

Other Commitments and Contingencies

Nuclear Insurance. The Price-Anderson Act is a United States federal law which governs liability-related issues and ensures the availability of funds for public liability claims arising from a nuclear incident at any U.S. licensed nuclear facility. It also seeks to limit the liability of nuclear reactor owners for such claims from any single incident. As of September 30, 2023, the liability limit per incident is $13.8 billion for such claims, which is funded by insurance coverage from American Nuclear Insurers (approximately $450 million in coverage), with the remainder covered by an industry retrospective assessment program. In October 2023, the liability limit for public liability and approved legal costs per incident increased to approximately $16 billion for such claims. On January 1, 2024, American Nuclear Insurers expects to increase primary insurance coverage to $500 million, resulting in a commensurate increase in total coverage, but that increase has not yet occurred.

As of September 30, 2023, under the industry retrospective assessment program, in the event of a nuclear incident at any of the reactors covered by the Price-Anderson Act, Susquehanna Nuclear could be assessed deferred premiums of up to $275 million per incident, payable at a maximum of $41 million per year. As of October 2023, Susquehanna Nuclear could be assessed deferred premiums of up to $331.8 million per incident, payable at a maximum of $49.4 million per year.

Additionally, Susquehanna Nuclear purchases property insurance programs from NEIL, an industry mutual insurance company of which Susquehanna Nuclear is a member. As of September 30, 2023, facilities at Susquehanna are insured against nuclear property damage losses up to $2.0 billion and non-nuclear property damage losses up to $1.0 billion. Susquehanna Nuclear also purchases an insurance program that provides coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the NEIL property and replacement power insurance programs, Susquehanna Nuclear could be assessed retrospective premiums in the event of the insurers' adverse loss experience. The maximum assessment for this premium is $45 million as of September 30, 2023. Talen has additional coverage that, under certain conditions, may reduce this exposure.

Talen Montana Fuel Supply. Talen Montana purchases coal from the Rosebud Mine for its interest in Colstrip Units 3 and 4 under a full requirements contract with an unaffiliated coal mine operator. In 2015, the MDEQ issued the mine operator an amendment to one of its mine permits expanding the area authorized for mining. Certain parties challenged the permit amendment in a proceeding at the MBER and, after the MBER issued a decision upholding the permit amendment, in a lawsuit in Montana state district court. In January 2022, the district court entered an order vacating the permit amendment effective April 1, 2022. Rosebud Mining ceased mining in the expansion area prior to the April 1, 2022 deadline. The mine operator and the MDEQ appealed the district court's decisions to the Montana Supreme Court and filed motions seeking to stay the order vacating the permit. In August 2022, the Montana Supreme Court entered an order staying the district court's order vacating the permit amendment pending resolution of the appeal. Merits briefing is complete and oral argument was held in April 2023.

In May 2022, MDEQ issued a second permit amendment expanding the area authorized for mining by the coal-mine operator. A group of complainants initiated proceedings at the MBER and in Montana state district court challenging the second permit amendment. Both proceedings are in the early stages.

In September 2022, the Montana Federal District Court entered an order upholding challenges to a third permit amendment expanding the area authorized for mining by the mine operator. The plaintiffs asserted that the OSM violated NEPA when preparing the EIS for the permit amendment. The court ordered OSM to complete an updated EIS in accordance with NEPA's requirements. The permit amendment will be vacated unless OSM completes the updated EIS within 19 months from the date of the court's order. The federal defendants did not appeal and expect to issue a revised decision on the permit amendment within the 19-month deadline, but in November 2022, intervenor-defendants, Westmoreland Rosebud and International Union, appealed the ruling to the Ninth Circuit Court of Appeals. MEIC and the other plaintiffs moved to dismiss the appeal for lack of jurisdiction, and the federal defendants do not oppose the motion to dismiss. Oral argument was held on November 13, 2023

At this time, Talen cannot predict the outcome of these matters or their effect on Talen Montana's operations, results of operations or liquidity.

Labor Union Agreements. As of September 30, 2023, collective bargaining agreements to which Talen is subject, govern approximately 40% of our workforce. The collective bargaining agreement with IBEW Local 1638, which covers approximately 186 Talen Montana employees, expires in April 2026.

13. Long-Term Debt and Other Credit Facilities

Long-Term Debt

	Interest Rate [a]	Successor September 30, 2023	Predecessor December 31, 2022
TLB [b]	9.88%	$ 868	$ —
TLC [c]	9.88%	470	—
Secured Notes	8.63%	1,200	—
PEDFA 2009B Bonds [f]	5.00%	50	49
PEDFA 2009C Bonds [f]	5.00%	81	79
Cumulus Digital TLF, including PIK [d]	12.50%	193	185
Settled Indebtedness			
DIP TLB	N/A	—	1,000
Prepetition TLB	N/A	—	427
Prepetition Secured Notes	N/A	—	1,620
LMBE-MC TLB [e]	N/A	—	301
Prepetition Unsecured Notes [f]	N/A	—	1,330
PEDFA 2009A Bonds [f]	N/A	—	100
Total Principal		**2,862**	**5,091**
Unamortized deferred finance costs and original issuance discounts		(27)	(29)
Total carrying value		**2,835**	**5,062**
Less: long-term debt, due within one year		12	1,010
Less: amounts presented as "Liabilities subject to compromise" [f]		—	1,558
Long-term debt		**$ 2,823**	**$ 2,494**

(a) Computed interest rate as of September 30, 2023 (Successor).
(b) See "2023 Transactions - LMBE-MC Refinancing" below for additional information on $290 million of additional indebtedness incurred in August 2023.
(c) See "Talen Energy Supply Post-Emergence Long-Term Debt, Revolving Credit and Other Facilities - TLC LCF" for additional information on collateralization securing the TLC LCF.
(d) Limited recourse to TES and TEC. See Note 12 for additional information.
(e) The non-recourse LMBE-MC Credit Agreement indebtedness was repaid and extinguished in August 2023. See "2023 Transactions - LMBE-MC Refinancing" below for additional information.
(f) As of December 31, 2022, amounts are presented as "Liabilities subject to compromise" on the Condensed Consolidated Balance Sheets. See Note 4 for additional information.

Revolving Credit and Other Facilities

		Successor				Predecessor	
		September 30, 2023				December 31, 2022	
	Expiration	Committed Capacity	Direct Cash Borrowings	LCs Issued	Unused Capacity	Direct Cash Borrowings	LCs Issued
RCF [(a)]	May-28	$ 700	$ —	$ —	$ 700	$ —	$ —
TLC LCF [(b)] [(c)]	May-30	470	—	462	8	—	—
Bilateral LCF [(c)]	May-28	75	—	43	32	—	—
Settled Indebtedness							
DIP RCF [(d)]	Nov-23	—	—	—	—	—	33
DIP LCF [(d)]	Nov-23	—	—	—	—	—	434
LMBE-MC RCF [(e)]	Dec-23	—	—	—	—	—	12
Prepetition CAF [(d)]	Sep-24	—	—	—	—	848	—
Total		**$ 1,245**	**$ —**	**$ 505**	**$ 740**	**$ 848**	**$ 479**

(a) Committed capacity includes $475 million of LC commitments.
(b) See “Talen Energy Supply Post-Emergence Long-Term Debt, Revolving Credit and Other Facilities - TLC LCF” for additional information on collateralization securing the TLC LCF.
(c) Direct cash borrowings are not permitted under the facility.
(d) Extinguished as of Emergence.
(e) Non-recourse to TES and TEC. The LMBE-MC Credit Agreement (including the LMBE-MC RCF) was extinguished on August 9, 2023. See “2023 Transactions - LMBE-MC Refinancing” below for additional information.

Outstanding direct cash borrowings under the RCF and the LMBE-MC RCF, when applicable, are each presented as “Revolving credit facilities” on the Condensed Consolidated Balance Sheets.

As of September 30, 2023: (i) TES was not in default under the Credit Facilities (including the RCF, TLB, TLC LCF, and Bilateral LCF), the Secured Notes, or the PEDFA 2009B or 2009C Bonds, and (ii) Cumulus Digital was not in default under the Cumulus Digital TLF.

2023 Transactions

LMBE-MC Refinancing. In August 2023, we incurred approximately an additional $290 million in aggregate principal amount of TLB, resulting in proceeds of $285 million, net of original issue discount and other fees. The additional amount was issued as an incremental borrowing under the TLB and constitutes a single series of indebtedness with the existing TLB incurred at Emergence. The proceeds were used, together with cash on hand, to fully repay the $293 million in aggregate principal amount outstanding under the LMBE-MC TLB. The LMBE-MC Credit Agreement along with an aggregate $12 million of outstanding LCs issued under the agreement were terminated at settlement. Following the repayment, the LMBE-MC Credit Agreement was terminated.

Successor Emergence Financings. In May 2023, as part of the Exit Financings, TES issued the following long-term debt:

- TLB, due 2030, in an aggregate principal amount of $580 million, resulting in proceeds of $548 million, net of original issue discount and other fees;
- TLC, due 2030, in an aggregate principal amount of $470 million, resulting in proceeds of $446 million, net of original issue discount and other fees; and
- Secured Notes, due 2030, in an aggregate principal amount $1.2 billion, resulting in proceeds of $1.179 billion, net of initial purchaser discounts and other fees.

Proceeds from the TLB and the Secured Notes were used, together with cash on hand, to fund the settlement of the transactions and claims contemplated by the Plan of Reorganization, including cash settlement of the long-term debt and cash revolver borrowings outstanding under the DIP Facilities, Prepetition TLB, Prepetition Secured Notes, and Prepetition CAF, all of which were extinguished as of May 17, 2023 under the Plan of Reorganization. Proceeds from the TLC were used to cash collateralize letters of credit under the TLC LCF.

Also, as part of the Exit Financings, TES entered into the following revolving and letter of credit facilities:

- RCF, a $700 million revolving credit facility, including letter of credit commitments of $475 million;
- TLC LCF, which provides commitments for up to $470 million in letters of credit, cash collateralized with the proceeds of the TLC, and reduced to the extent that borrowings under the TLC are prepaid; and
- Bilateral LCF, which provides commitments for up to $75 million in letters of credit.

At Emergence, LCs were issued under the TLC LCF and the Bilateral LCF to backstop or replace LCs previously outstanding under the DIP Facilities, which were extinguished as of May 17, 2023.

See "Talen Energy Supply Post-Emergence Long-Term Debt, Revolving Credit and Other Facilities" below for additional information on our Credit Facilities and Secured Notes. See Note 3 for additional information on the Restructuring.

Emergence Equitization. All of the Prepetition Secured Notes and the PEDFA 2009A Bonds were extinguished as of May 17, 2023 under the Plan of Reorganization through the issuance of TEC common stock. See Notes 3 and 4 for additional information on the Restructuring and fresh start accounting adjustments related to indebtedness.

Talen Energy Supply Recourse Debt and Other Credit Facilities

Predecessor Pre-Restructuring Long-Term Debt, Revolving Credit and Other Facilities. Commencement of the Restructuring constituted an event of default and accelerated obligations under TES's then-outstanding Prepetition Indebtedness, other than the PEDFA 2009B and 2009C Bonds. See Note 3 for additional information on the Restructuring, including the Exit Financings, and Notes 17 and 18 in the Annual Financial Statements for additional information on the DIP Facilities and Talen Energy Supply's Prepetition Indebtedness.

Prepetition Long-Term Debt and Revolving Credit Facilities. Under the Plan of Reorganization, the $1.4 billion of Prepetition Unsecured Notes and PEDFA 2009A Bonds, presented as "Liabilities subject to compromise" on the Consolidated Balance Sheet as of December 31, 2022, were converted to TEC common stock upon Emergence. The PEDFA 2009B and 2009C Bonds, presented as "Liabilities subject to compromise" on the Consolidated Balance Sheet as of December 31, 2022, remained outstanding in accordance with the agreed upon terms. See Note 3 for additional information on the Restructuring.

As a result of the Restructuring, interest no longer accrued on the Condensed Consolidated Statements of Operation on certain outstanding Prepetition Indebtedness, including the Prepetition Unsecured Notes and the PEDFA Bonds. For the period from January 1 through May 17, 2023 (Predecessor), $49 million of contractual interest expense has not been presented on the Condensed Consolidated Statements of Operations. Talen continued to reimburse the direct-pay LC provider for interest paid on the PEDFA 2009B and 2009C Bonds, as permitted by a final order of the Bankruptcy Court. The interest payments were treated as a reduction to principal.

Talen Energy Supply's Prepetition Indebtedness other than the PEDFA 2009B and 2009C Bonds (i.e., the Prepetition TLB, Prepetition Secured Notes, Prepetition Unsecured Notes, PEDFA 2009A Bonds, and Prepetition CAF) was extinguished as of May 17, 2023 under the Plan of Reorganization. The PEDFA 2009B and 2009C Bonds remained outstanding. See "2023 Transactions - Successor Emergence Financings" above for more information about the repayment of the Prepetition TLB, Prepetition Secured Notes, and Prepetition CAF, and See "2023 Transactions - Emergence Equitization" above for more information about the equitization of the Prepetition Unsecured Notes and PEDFA 2009A Bonds.

Prepetition LCF-1 and LCF-2. LC issuances were not permitted under the Prepetition LCF-1 and LCF-2 due to the Restructuring. We terminated the Prepetition LCF-2 in May 2023. The Prepetition LCF-1 expired in June 2023.

Prepetition Secured ISDAs. Prior to commencement of the Restructuring, Talen Energy Marketing was party to certain ISDAs, under which Talen Energy Supply and the Prepetition Guarantors provided the applicable counterparties with a first priority lien on and security interest (which ranked pari passu with the liens securing the Prepetition Secured Indebtedness) in certain assets in lieu of posting collateral in the form of cash equivalents or LCs (the "Prepetition Secured ISDAs"). Following commencement of the Restructuring, a portion of the Prepetition Secured ISDAs were rolled over into DIP Secured ISDAs. The Prepetition Secured ISDAs that were not rolled into DIP Secured ISDAs remained in place and continued to be secured by first priority liens that were subordinated to the superpriority liens securing the DIP Facilities and the DIP Secured ISDAs. As of May 18, 2023, post-emergence from Restructuring, the remaining Prepetition Secured ISDAs were rolled into the Secured ISDAs. The secured obligations under the remaining Prepetition Secured ISDAs were a non-material amount as of December 31, 2022 (Predecessor).

Talen Energy Supply DIP Facilities

DIP Facilities. Upon commencement of the Restructuring, TES entered into the DIP Facilities, comprised of (i) the DIP RCF, a $300 million revolving credit facility, including a letter of credit sub-facility of up to $75 million, (ii) the DIP TLB, a term loan B facility in an aggregate principal amount of $1 billion, and (iii) the DIP LCF, a letter of credit facility that provided for LCs outstanding under the Prepetition RCF as of commencement of the Restructuring to remain outstanding with superpriority status. Amounts owing under the DIP RCF and DIP TLB were repaid in full, and all DIP Facilities terminated, upon the Debtors' Emergence from the Restructuring. However, certain LCs issued (or continued) under the DIP RCF and DIP LCF remain outstanding, and are now backstopped by LCs issued under the TLC in favor of the applicable DIP LC issuers.

DIP Secured ISDAs. Following commencement of the Restructuring, and as authorized by a final order of the Bankruptcy Court, Talen Energy Marketing was party to certain ISDAs that were continuations of the Prepetition Secured ISDAs but under which TES and the Debtors provided the applicable counterparties with a superpriority lien on and security interest (which ranked pari passu with the liens securing the DIP Facilities) in certain assets in lieu of posting collateral in the form of cash equivalents or LCs (the "DIP Secured ISDAs"). As of May 18, 2023, post-emergence from Restructuring, the DIP Secured ISDAs were rolled into the Secured ISDAs and the associated superpriority liens were extinguished and replaced with the first priority liens securing the Secured ISDAs. The secured obligations under the DIP Secured ISDAs were $77 million as of December 31, 2022 (Predecessor).

Talen Energy Supply Post-Emergence Long-Term Debt, Revolving Credit and Other Facilities

Certain key terms of our post-emergence facilities include:

Facility	Maturity	Index	Rate, Applicable Margin, and Amortization	Prepayment Penalty
Secured Notes	June 2030	None	8.625% per annum fixed rate No applicable margin No amortization	**Prior to June 1, 2026:** Redeemable at par plus a customary "make-whole" premium. 10% redeemable during each 12-month period at 103%. 40% redeemable from the proceeds of certain equity offerings at 108.625% **On or after June 1 of the following years:** 2026: 104.313% 2027: 102.156% 2028 and thereafter: 100%
TLB	May 2030	Term SOFR	4.50% per annum applicable margin Amortization 1.00% per annum; paid quarterly	1.00% to the extent prepaid prior to February 9, 2024 in connection with a repricing transaction
TLC (TLC LCF)	May 2030	Term SOFR	4.50% per annum applicable margin No amortization	1.00% to the extent prepaid prior to November 17, 2023 in connection with a repricing transaction
RCF (cash borrowings)	May 2028	Term SOFR	3.50% per annum applicable margin; step-downs to 3.25% and 3.00% based on first lien net leverage ratios in certain fiscal quarters No amortization	None
RCF (letters of credit)	May 2028	Federal Funds Rate	None	None
Bilateral LCF	May 2028	Prime Rate	None	None

Credit Agreement. The Credit Agreement governs the RCF, TLB, TLC, and TLC LCF.

The Credit Agreement contains customary negative covenants including, but not limited to, limitations on incurrence of liens and additional indebtedness, making investments, payment of dividends, and asset sales. The Credit Agreement also contains customary affirmative covenants. Solely with respect to the RCF, and solely during a compliance period (which, in general, is applicable when the aggregate revolving borrowings and issued revolving LCs (in excess of $50 million of undrawn revolving LCs) exceed 35% of the revolving commitments under the RCF), the Credit Agreement includes a covenant that requires TES's consolidated first lien net leverage ratio not to exceed 2.75 to 1.00 as of June 30, 2023 and increasing through a series of step-ups until 4.25 to 1.00 (to be tested as of June 30, 2024 and thereafter). The financial covenant does not apply to the TLB, TLC, or TLC LCF.

The Credit Agreement also contains customary representations and warranties and events of default. If an event of default occurs under the Credit Agreement, the lenders thereunder are entitled to take various actions, including accelerating amounts due and, in the case of the RCF and the TLC LCF, terminating commitments.

TLC LCF. The TLC LCF provides commitments for up to $470 million in letters of credit, cash collateralized with the proceeds of the TLC, with commitments thereunder reduced to the extent that borrowings under the TLC are prepaid. The lenders of the TLC have issued LCs totaling $462 million under the TLC LCF, which have been issued either directly to Talen's counterparties or to lenders under the DIP Facilities to backstop LCs that were previously issued (or continued) thereunder and remain outstanding. These LCs are cash collateralized by $472 million as of September 30, 2023 (Successor) which is presented as "Restricted cash and cash equivalents" on the Condensed Consolidated Balance Sheets. Additionally, the restricted cash earns interest income, which varies by rate depending on the corresponding letter of credit issuer. The interest income earned on the restricted cash offsets against the calculated effective interest rate for the TLC when determining the computed interest rate.

Bilateral LCF. The Bilateral LC Agreement provides for letter of credit issuances that collectively cannot exceed $75 million and expires in May 2028. The Bilateral LC Agreement contains substantially the same covenants, representations and warranties, and events of default as the Credit Agreement. The Bilateral LCF includes a covenant that requires TES's consolidated first lien net leverage ratio not to exceed 2.75 to 1.00 as of June 30, 2023 and increasing through a series of step-ups to 4.25 to 1.00 as of June 30, 2024 and thereafter, but such covenant only applies to the extent a compliance period exists under the Credit Agreement. In addition, the Bilateral LC Agreement contains an affirmative covenant requiring disposition of certain minority-owned coal assets. Subject to customary conditions, commitments under the Bilateral LC Agreement can be terminated by the lenders upon an event of default thereunder.

Secured Notes. The Secured Notes are subject to customary negative covenants, including, but not limited to, certain limitations on incurrence of liens and additional indebtedness, making investments, payment of dividends, and asset sales. The Secured Notes do not contain any financial covenants. The Secured Notes also contain customary affirmative covenants and events of default. If an event of default occurs, the holders of the Secured Notes are entitled to take various actions, including the acceleration of amounts due under the Secured Notes.

PEDFA Bonds. The PEDFA 2009B and 2009C Bonds remained outstanding following Emergence. These bonds are backstopped by letters of credit totaling $133 million as of September 30, 2023. See Note 18 to the Annual Financial Statements for additional information on the terms of the PEDFA Bonds.

Secured ISDAs. Talen Energy Marketing is party to certain ISDAs, a portion of which are continuations of either the Prepetition Secured ISDAs or the DIP Secured ISDAs (the "Secured ISDAs"). Under the Secured ISDAs, TES and the Subsidiary Guarantors provide the applicable counterparties with a first priority lien on and security interest (which ranks pari passu with the liens securing the Credit Facilities and the Secured Notes) in certain assets in lieu of posting collateral in the form of cash equivalents or LCs. The secured obligations under the Secured ISDAs were approximately $62 million as of September 30, 2023 (Successor).

Security Interests, Guarantees, and Cross-Defaults on TES Post-Emergence Obligations

Secured Obligations. The obligations under the Credit Facilities, Secured Notes, and Secured ISDAs are secured by a first priority lien on and security interest in substantially all of the assets of TES and the Subsidiary Guarantors. The LCs issued pursuant to the TLC are cash collateralized by $472 million as of September 30, 2023 (Successor) (which is presented as "Restricted cash and cash equivalents" on the Condensed Consolidated Balance Sheet) with such amounts being held in restricted collateral accounts, first, for the benefit of the issuers of LCs pursuant to the TLC and, thereafter, as security for the obligations under the Credit Facilities (other than the TLC), Secured Notes, and Secured ISDAs.

The Subsidiary Guarantors guarantee the obligations of TES under the Credit Facilities and the Secured Notes. TES and the Subsidiary Guarantors guarantee the obligations of Talen Energy Marketing under the Secured ISDAs. The maximum amount of potential future payments by the Subsidiary Guarantors is equal to the maximum amount of outstanding obligations under such agreements and may include unpaid interest, premiums, penalties, and (or) other fees and expenses. An event of default under the Credit Facilities, Secured Notes, or Secured ISDAs, if not cured or waived, may result in a cross acceleration of amounts due and (or) cross termination across all these agreements.

Unsecured Obligations. The PEDFA 2009B and 2009C Bonds are senior unsecured obligations of TES that are effectively subordinated to the secured obligations of TES, including the Credit Facilities, Secured Notes, and Secured ISDAs.

The guarantees under the PEDFA 2009B and 2009C Bonds are the general unsecured obligations of the Subsidiary Guarantors that guarantee such indebtedness, rank equally with all of such Subsidiary Guarantors' other senior unsecured indebtedness, and are effectively subordinated to the secured obligations of the Subsidiary Guarantors, including the Credit Facilities, Secured Notes, and Secured ISDAs.

Non-Recourse Debt and Other Credit Facilities

Cumulus Digital TLF. In March 2023, the Cumulus Digital Credit Agreement was amended to, among other things, add a requirement that Cumulus Digital procure up to $16 million in equity funding for Cumulus Data to complete construction of the first data center shell and related infrastructure. The required funding was provided during the second quarter 2023.

See Note 12 for information on LCs issued by TES and a guarantee issued by Talen Energy Corporation related to the Cumulus Digital TLF.

14. Fair Value

Recurring Fair Value Measurements

Financial assets and liabilities reported at fair value on a recurring basis primarily include energy commodity derivatives, interest rate derivatives, and investments held within the Susquehanna Nuclear NDT.

The classifications of recurring fair value measurements within the fair value hierarchy were:

	Successor						Predecessor				
	September 30, 2023						December 31, 2022				
	Level 1	Level 2	Level 3	NAV	Netting [a]	Total	Level 1	Level 2	Level 3	NAV	Total
Assets											
Cash equivalents	$ —	$ —	$ —	$ 11	$ —	$ 11	$ —	$ —	$ —	$ 6	$ 6
Equity securities [b]	565	—	—	365	—	930	508	—	—	429	937
U.S. Government debt securities	268	—	—	—	—	268	272	—	—	—	272
Municipal debt securities	—	81	—	—	—	81	—	91	—	—	91
Corporate debt securities	—	155	—	—	—	155	—	114	—	—	114
Other debt securities	—	—	—	—	—	—	—	—	—	—	—
Receivables (payables), net [c]						11					(20)
Nuclear decommissioning trust funds	**833**	**236**	**—**	**376**	**—**	**1,456**	**780**	**205**	**—**	**435**	**1,400**
Commodity derivatives	227	206	17	—	(375)	75	1,807	565	12	—	2,384
Interest rate derivatives	—	2	—	—	—	2	—	9	—	—	9
Total assets	**$1,060**	**$ 444**	**$ 17**	**$ 376**	**$ (375)**	**$1,533**	**$2,587**	**$ 779**	**$ 12**	**$ 435**	**$3,793**
Liabilities											
Commodity derivatives [d]	$ 298	$ 225	$ 1	$ —	$ (446)	$ 78	$1,879	$ 411	$ —	$ —	$2,290
Interest rate derivatives	—	2	—	—		2	—	—	—	—	—
Less: other	—	—	—	—	—	—	—	1	—	—	1
Total liabilities	**$ 298**	**$ 227**	**$ 1**	**$ —**	**$ (446)**	**$ 80**	**$1,879**	**$ 410**	**$ —**	**$ —**	**$2,289**

(a) Amounts represent the impact of legally enforceable master netting arrangements that allow Talen to settle positions, as well as cash collateral held or placed with the same counterparty.
(b) Includes commingled equity and fixed income funds and real estate investment trusts.
(c) Represents: (i) interest and dividends earned but not received; and (ii) net sold or purchased investments, but not settled.
(d) A portion of these amounts have been presented as "Liabilities subject to compromise" on the Condensed Consolidated Balance Sheets. See Note 4 for additional information.

The changes in the net Level 3 commodity derivative assets and liabilities for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Asset (liability), net, beginning of the period	$ 10	$ (87)	$ 8	$ 12	$ (6)
Gains (losses), net, included in earnings	11	4	11	1	(2)
Settlements	(5)	91	(3)	(5)	16
Asset (liability), net, end of the period	**$ 16**	**$ 8**	**$ 16**	**$ 8**	**$ 8**

The significant unobservable inputs used in the fair value measurement of Level 3 commodity derivatives as of September 30, 2023 (Successor) were:

Transaction Type	Valuation Technique	Unobservable Input	Low End Range	High End Range	Weighted Average [(a)]	Fair Value
Congestion Products	Congestion Auction Results	Forward congestion price	$2.31/MWh	$88.29/MWh	$47.42/MWh	$ 16

(a) Weighted average is based on notional volumes as of September 30, 2023.

The significant unobservable inputs used in the fair value measurement of Level 3 commodity derivatives as of September 30, 2022 (Predecessor) were:

Transaction Type	Valuation Technique	Unobservable Input	Low End Range	High End Range	Weighted Average [(a)]	Fair Value
Congestion Products	Historical congestion	Forward congestion price	$(11.18)/MWh	$92.91/MWh	$4.46/MWh	$ 15
Heat rate options	Option models	Power volatilities	53%	117%	85%	(7)
		Gas volatilities	15%	30%	22%	
		Power and gas correlation	(1)%	24%	13%	

(a) Weighted average is based on notional volumes as of December 31, 2022.

The sensitivity of fair value measurements to changes in significant unobservable inputs as of September 30, 2023 (Successor) and September 30, 2022 (Predecessor) were:

Significant Unobservable Input	Position	Change in Input	Fair Value Effect
Forward congestion price	Purchased pathway	Price increase / decrease	Higher / (Lower)
Forward congestion price	Sold pathway	Price increase / decrease	Lower / (Higher)
Power and gas spread volatilities	Sold call option	Spread increase / decrease	Lower / (Higher)
Power and gas correlation	Sold call option	Correlation increase / decrease	Higher / (Lower)

The net gains and losses of Level 3 commodity derivatives for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Energy Revenues					
Gains (losses) included in earnings	$ 11	$ 4	$ 11	$ 1	$ (2)
Change in unrealized gains (losses) [(a)]	6	95	8	(4)	14

(a) Amounts included in earnings for positions still held as of the end of each reporting date.

Nonrecurring Fair Value Measurements

See Note 4 for information on the nonrecurring fair value measurements resulting in the application of fresh start accounting and Note 10 for information on the nonrecurring fair value measurement of Brandon Shores during the nine months ended September 30, 2023. There were no nonrecurring fair value measurements related to impairments of long-lived assets during the nine months ended September 30, 2022 (Predecessor).

Reported Fair Value

The carrying value of certain assets and liabilities on the Condensed Consolidated Balance Sheets, including “Cash and cash equivalents,” “Restricted cash and cash equivalents,” “Accounts receivable, net,” and “Accounts payable and other accrued liabilities” approximate fair value.

The fair value measurements of indebtedness are classified as Level 2 within the fair value hierarchy. The fair value of fixed rate debt was estimated primarily by utilizing an income approach whereby the future cash flows of the obligations are discounted at the estimated current cost of funding rates, which incorporates the credit risk associated with the obligations. The carrying value of variable rate indebtedness approximates fair value.

The carrying value and fair value of indebtedness presented on the Condensed Consolidated Balance Sheets were:

	Successor		Predecessor	
	September 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit facilities	$ —	$ —	$ 848	$ 848
Other short-term indebtedness [(a)]	11	11	—	—
Long-term debt [(b)]	2,835	2,898	5,062	4,386

(a) Presented as “Other current liabilities” on the Condensed Consolidated Balance Sheets.
(b) Aggregate value of “Long-term debt” and “Long-term debt, due within one year” presented on the Condensed Consolidated Balance Sheets.

15. Postretirement Benefit Obligations

In the second quarter 2023, upon Emergence, Talen: (i) performed a valuation of its defined benefit pension plans and other postretirement benefit plans, and (ii) made changes to related accounting policies. See Notes 2 and 4 for additional information on these matters.

Obligations under defined benefit pension plans and other postretirement benefit plans are generally based on individual participant factors such as age, years of service, and compensation. The defined benefit pension plans and other postretirement benefit plans are closed to new participants. Due to the Restructuring, as of December 31, 2022, all of Talen's unfunded or underfunded postretirement obligations were presented as "Liabilities subject to compromise" on the Condensed Consolidated Balance Sheets. Following Emergence, Talen and Talen Montana's respective qualified defined benefit pension and other postretirement plans continue to be in effect in accordance with their terms pursuant to the Plan of Reorganization.

The components of net periodic benefit costs were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Postretirement benefits service cost [a]	$ —	$ 1	$ 1	$ 1	$ 4
Interest cost	17	13	25	27	39
Expected return on plan assets	(18)	(17)	(26)	(32)	(53)
Amortization of:					
Net loss	—	6	—	2	20
Postretirement benefits (gain) loss, net [b]	(1)	2	(1)	(3)	6
Net periodic defined benefit cost (credit)	**$ (1)**	**$ 3**	**$ —**	**$ (2)**	**$ 10**

(a) Activity presented as "Operation, maintenance and development" on the Condensed Consolidated Statements of Operations.
(b) Activity presented as "Other non-operating income (expense), net" on the Condensed Consolidated Statements of Operations.

See Note 12 for additional information on pending litigation regarding our postretirement benefit obligations.

16. Capital Structure

Successor

Our Third Amended and Restated Certificate of Incorporation, which became effective at Emergence, authorizes TEC to issue up to 400,000,000 shares of capital stock, consisting of 350,000,000 shares of common stock, par value $0.001 per share, and 50,000,000 shares of preferred stock, par value $0.01 per share. At Emergence, TEC issued 59,028,843 shares of common stock. The same number of shares remained outstanding as of September 30, 2023. No shares of preferred stock are outstanding.

Each share of common stock entitles the record holder to one vote on all matters on which stockholders generally are entitled to vote. Subject to the rights of the holders of preferred stock, if any, the holders of shares of common stock are entitled to receive dividends and other distributions (payable in cash, property or capital stock of TEC) when, as and if declared thereon by the Board of Directors.

Registration Rights Agreement and Stockholders Agreement. In connection with Emergence, TEC entered into a Registration Rights Agreement and a Stockholders Agreement with certain of its stockholders party thereto. Under the Registration Rights Agreement, the Reg Rights Holders were granted customary registration rights that may be exercised after the consummation of an initial public offering by the Company, including customary shelf registration rights and piggyback rights. Pursuant to the Stockholders Agreement, the holders party thereto have certain limited information rights, drag-along rights and tag-along rights, and holders holding 5% or more of common stock have the right to designate a representative to an offering committee that, so long as the aggregate TEC ownership represented on the offering committee is at least 20%, will have rights to require TEC to pursue and consummate an initial public offering and to consent to certain key elements of the initial public offering structure.

Liability-Classified Warrants. At Emergence, Riverstone received liability-classified warrants to purchase up to 5%, or 3,106,781 shares of TEC's common stock with: (i) a tenor of five years; (ii) a strike price of $52.92, subject to adjustment in certain circumstances; (iii) Black-Scholes protection in the event of certain change of control transactions; and (iv) a contingent put option providing Riverstone the right to require that the Company redeem the warrants in cash upon certain change of control events.

In the third quarter 2023, TEC, TES, and Riverstone completed a transaction pursuant to which: (i) Riverstone surrendered all of its warrants to purchase TEC common stock to TEC and waived all future rights to the Retail PPA Incentive Equity, and (ii) TEC, TES and Riverstone terminated and canceled a tax indemnity agreement executed by them in connection with the TEC Global Settlement. TEC paid Riverstone $40 million in exchange for these cancellations and waivers and recognized a gain of $9 million presented as "Other non-operating income (expense), net" on the Condensed Consolidated Statements of Operations for the three months ended September 30, 2023 (Successor) and the period from May 18 through September 30, 2023 (Successor).

Riverstone Cumulus Digital Buyout. Also, in the third quarter 2023, Riverstone and TES completed a transaction in which TES purchased all of the Class A common units of Cumulus Digital Holdings held by Riverstone for an aggregate purchase price of $20 million (the "Riverstone Buyout"), of which TES paid $19 million. Affiliates of Orion also elected to participate in the Riverstone Buyout and acquired an additional 1% interest under the terms of the Cumulus Digital Holdings limited liability company agreement. Upon closing, TES's ownership interest in Cumulus Digital Holdings increased to approximately 95%. TES has sole control of Cumulus Digital Holdings' board of managers following the closing of the Riverstone Buyout.

Equity-Classified Warrants. Pursuant to an employment agreement with a former executive, at Emergence, the Company issued equity-classified warrants to the executive to purchase up to 457,142 shares common stock with a tenor of seven years and a strike price of $43.75, subject to adjustment in certain circumstances. The equity-classified warrants were valued at $8 million using the above strike price, 30.0% volatility, and a risk-free rate of 3.6%.

Retail PPA Incentive Equity. Pursuant to the Plan of Reorganization and the TEC Global Settlement, at Emergence, the Company issued approximately 243,000 shares of TEC common stock to Riverstone in partial satisfaction of Riverstone's right to the Retail PPA Incentive Equity. The Retail PPA Incentive Equity also included a right of Riverstone to receive additional TEC common stock (or, at TEC's option, a cash payment) in the event Cumulus Data exercised an option with Talen Generation to purchase additional electricity generated by Susquehanna, as further described in the Plan of Reorganization. In August 2023, Riverstone agreed to waive its right to this additional portion of the Retail PPA Incentive Equity in exchange for a cash payment. See "*Riverstone Cumulus Digital Buyout*" above for additional information.

Predecessor

As of December 31, 2022, outstanding shares of Talen Energy Corporation owned by Riverstone affiliates and Talen MidCo LLC were:

	Talen MidCo LLC	Raven Power Holdings, LLC	C/R Energy Jade, LLC	Sapphire Power Holdings LLC
Shares (in thousands)	221	130	83	16

These shares were cancelled upon Emergence pursuant to the Plan of Reorganization.

17. Earnings Per Share

Basic EPS is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the applicable period. Diluted EPS is computed by dividing income by the weighted-average number of shares of common stock outstanding, increased by incremental shares that would be outstanding if potentially dilutive non-participating securities were converted to common stock as calculated using the treasury stock method.

	Three Months Ended				
	Successor	**Predecessor**	**Successor**	**Predecessor**	
	September 30, 2023	**September 30, 2022**	**May 18 through September 30, 2023**	**January 1 through May 17, 2023**	**Nine Months Ended September 30, 2022**
Numerator: (Millions)					
Net Income (loss)	**$ (76)**	**$ (300)**	**$ (45)**	**$ 465**	**$ (1,454)**
Exclude:					
Net income (loss) attributable to noncontrolling interest	1	—	3	(14)	—
Net Income (loss) attributable to the Company	**$ (77)**	**$ (300)**	**$ (48)**	**$ 479**	**$ (1,454)**
Denominator: (Thousands)					
Weighted-average shares outstanding - Basic	59,029	—	59,029	—	—
Warrants	—	—	—	—	—
Restricted stock units	—	—	—	—	—
Weighted-average shares outstanding - Diluted	**59,029**	**—**	**59,029**	**—**	**—**
Basic earnings (loss) per share	**$ (1.30)**	**$ —**	**$ (0.81)**	**$ —**	**$ —**
Diluted earnings (loss) per share	**(1.30)**	**—**	**(0.81)**	**—**	**—**

For the three months ended September 30, 2023 (Successor) and the period from May 18 through September 30, 2023 (Successor), basic net loss per share of $(1.30) and $(0.81), respectively, includes 59,028,843 shares of common stock outstanding. For the period from January 1 through May 17, 2023 (Predecessor), there were no outstanding shares of common stock attributed to the Predecessor.

Diluted loss per share during periods ended September 30, 2023 excludes the impact of 3,569,923 warrants, 832,518 restricted stock units (“RSUs”), and 965,605 performance stock units (“PSUs”) outstanding.

18. Accumulated Other Comprehensive Income

The total changes in AOCI for the periods were:

	Successor	Predecessor	
	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Beginning balance	$ —	$ (167)	$ (152)
Gains (losses) arising during the period	(26)	6	(75)
Reclassifications to Condensed Consolidated Statements of Operations	7	5	47
Income tax benefit (expense)	7	(5)	14
Other comprehensive income (loss)	(12)	$ 6	(14)
Cancellation of equity at Emergence		161	
Accumulated other comprehensive income	**$ (12)**	**$ —**	**$ (166)**

The components of AOCI, net of tax, as of September 30 were:

	Successor	Predecessor
	2023	2022
Available-for-sale securities unrealized gain (loss), net	$ (12)	$ (24)
Qualifying derivatives unrealized gain (loss), net	—	10
Postretirement benefit prior service credits (costs), net	—	7
Postretirement benefit actuarial gain (loss), net	—	(159)
Accumulated other comprehensive income	**$ (12)**	**$ (166)**

The locations of pre-tax gains (losses) reclassified from AOCI and included on the Condensed Consolidated Statements of Operations for the periods were:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
Location of gain (loss)	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Nuclear decommissioning trust funds gain (loss), net [a]	$ (6)	$ (5)	$ (7)	$ (4)	$ (28)
Depreciation, amortization and accretion [b]	—	1	—	1	2
Other non-operating income (expense), net [c]	—	(8)	—	(2)	(21)
Total	**$ (6)**	**$ (12)**	**$ (7)**	**$ (5)**	**$ (47)**

(a) Available-for-sale securities unrealized gain (loss), net.
(b) Qualifying derivatives unrealized gain (loss).
(c) Postretirement benefit actuarial gain (loss), net.

The postretirement obligations components of AOCI are not presented in their entirety on the statement of operations during the periods; rather, they are included in the computation of net periodic defined benefit costs (credits). See Note 15 for additional information.

19. Supplemental Cash Flow Information

Supplemental information for the Condensed Consolidated Statements of Cash Flows for the periods were:

	Successor	Predecessor	
	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Cash paid (received) during the period			
Interest and other finance charges, net of capitalized interest ($7 million for May 18 to September 30 and $12 million for January 1 to May 17 in 2023 and $4 million in 2022)	$ 30	$ 283	$ 192
Income taxes, net	9	7	11
Non-cash investing and operating activities			
Capital expenditure accrual increase (decrease)	$ (8)	$ (28)	$ 15
Accounts receivable contributed to equity method investment	—	—	2
Depreciation, amortization and accretion included on the Statements of Operations:			
Depreciation, amortization and accretion	$ 94	$ 200	$ 396
Amortization of deferred finance costs and original issuance discounts (interest expense) [(a)]	—	8	24
Other	(5)	—	—
Total	**$ 89**	**$ 208**	**$ 420**
Non-cash financing/investing activities			
Non-cash increase to PP&E and decrease to other current assets for transfer of miners by Cumulus Coin [(b)]	$ —	$ 14	$ —
Non-cash decrease to PP&E and decrease to noncontrolling interest for transfer of miners to TeraWulf	—	3	—
Non-cash increase to PP&E and increase to noncontrolling interest for transfer of miners by TeraWulf [(b)]	—	38	—
Unrealized (gain) loss on derivatives:			
Commodity contracts	$ 43	$ 63	$ (313)
Interest rate swap contracts	6	2	(23)
Total	**$ 49**	**$ 65**	**$ (336)**
Operating activities reconciliation adjustments, other:			
Net periodic defined benefit cost	$ 1	$ (3)	$ 10
Stock compensation	11	—	—
Derivative option premium amortization	31	29	51
Bitcoin revenue	(44)	(27)	—
Non-cash environmental liability revisions	—	—	13
Gain on sale of mineral rights and western gas portfolio	—	(44)	—
Gain on cancellation of lease	—	(7)	—
Nonrecourse PIK interest	3	9	(7)
Mark-to-market on warrant	14	—	—
Derivatives with financing elements	—	—	53
Debt restructuring (gain) loss, net	5	—	6
Other	2	—	(3)
Total	**$ 23**	**$ (43)**	**$ 123**

(a) Includes previously recognized fair value adjustments on certain exchanges of indebtedness.

(b) In 2023, each of the joint venture partners of Nautilus made non-cash contributions to Nautilus of cryptocurrency miners that increased PP&E.

Cash and Restricted Cash

The following provides a reconciliation of “Cash and cash equivalents” and “Restricted cash and cash equivalents” presented on the Condensed Consolidated Statements of Cash Flows to line items within the Condensed Consolidated Balance Sheets:

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Cash and cash equivalents	$ 244	$ 724
Restricted cash and cash equivalents:		
Commodity exchange margin	1	85
Collateral deposits [(a)]	—	89
TES TLC debt restricted deposits	472	—
Cumulus Digital Holdings debt restricted deposits	35	49
Nautilus project restricted deposits	12	19
LMBE-MC major maintenance reserve deposits	—	7
LMBE-MC debt service reserve deposits [(b)]	—	7
TEC Global Settlement deposits [(c)]	—	7
Other	—	1
Restricted cash and cash equivalents	520	264
Total	**$ 764**	**$ 988**

(a) Collateral deposits that support the DIP LCF. Funds were returned to Talen upon Emergence.
(b) Outstanding indebtedness was repaid in August 2023 and these funds were released. See Note 13 for additional information on the repayment.
(c) Funds were released to a third party upon Emergence.

20. Related Party Transactions

Registration Rights Agreement and Stockholders Agreement

See Note 16 for information on a Registration Rights Agreement and Stockholders Agreement entered into with certain TEC stockholders at Emergence.

Predecessor Transactions

Talen historically has incurred and paid customary management fees for services provided by Riverstone and its affiliates and reimbursed Riverstone for certain costs. In November 2021, Riverstone agreed to suspend Talen’s payment obligations for these management fees. In the third quarter 2022, as a result of the TEC Global Settlement, Talen adjusted the amounts previously accrued for these fees and Riverstone waived further payment of fees following Emergence.

In the three and nine months ended September 30, 2022 (Predecessor), the aggregate fees incurred for services and reimbursements were $8 million and $5 million, respectively. These fees are presented as “General and administrative” on the Condensed Consolidated Statements of Operations.

Pursuant to the TEC Global Settlement: (i) upon confirmation of the Plan of Reorganization in December 2022 (Predecessor), TES paid $8 million in fees and expenses of TEC’s professional advisors; (ii) deposited $7 million in a custodial account presented as “Restricted cash” on the December 31, 2022 Consolidated Balance Sheet that was to be used to pay fees and expenses of Talen Energy Corporation’s advisors when due. The $7 million was released from Talen restricted cash at Emergence.

In recent years, TES has paid certain expenses and liabilities incurred by TEC. Accordingly, as of December 31, 2022 (Predecessor), TES presented $2 million due from TEC as “Accounts receivable, net” presented on the Condensed Consolidated Balance Sheets. Such amounts were settled in connection with the Plan of Reorganization upon Emergence.

During 2022, Talen engaged parties related to two employees in management positions, both under two separate independent contractor agreements for office maintenance and IT services. In the three and nine months ended September 30, 2022 (Predecessor), Talen paid approximately $22 thousand and $88 thousand under these agreements. The contracts with these independent contractors were terminated in July 2022.

See Notes 12 and 24 to the Annual Financial Statements for additional information on the above and other related party transactions.

Cumulus Digital Agreements with TES

TES and (or) its subsidiaries have executed certain agreements with Cumulus Digital Holdings and (or) its respective subsidiaries. Such agreements include, but are not limited to: (i) the Nautilus FOA and the Cumulus Digital COSA, pursuant to which TES provides administrative and operational services to Cumulus Digital and its subsidiaries; (ii) the ground lease for the Nautilus site; and (iii) certain energy supply agreements, which are supporting, or will support, Cumulus Data’s power requirements (including its obligations to provide sub-metered power to Nautilus under the Nautilus ground lease).

See Note 12 for information on LCs provided by TES and a guarantee provided by TEC supporting Cumulus Digital’s obligations under the Cumulus Digital TLF.

21. Acquisitions and Divestitures

Potential Acquisition

Talen Montana Colstrip Units 3 and 4 Transaction. In September 2022, Talen Montana entered into an agreement under which Puget Sound Energy, Inc. will abandon its 25% share of Colstrip Units 3 and 4 to Talen Montana for no cash consideration. Under the agreement, Puget Sound will retain certain liabilities attributable to pre-closing operations, including environmental remediation and decommissioning costs, and Talen Montana will assume those liabilities for post-closing operations. Until the closing of the transaction, Talen Montana is entitled to increased voting rights (via Puget Sound’s voting rights) regarding certain decisions relating to Colstrip Units 3 and 4. The agreement is subject to customary closing conditions, including Bankruptcy Court approval. In addition, the co-owners of Colstrip Units 3 and 4 have certain rights of first refusal that may entitle them to acquire a portion of the interest being transferred by Puget Sound. Subject to satisfaction of the closing conditions set forth in the agreement, the parties have agreed on a closing date of December 31, 2025. Talen also has a right of first refusal on any other changes in ownership in Colstrip Units 3 and 4.

Talen Montana did not obtain Bankruptcy Court approval of the agreement and continues to evaluate the circumstances under which it would acquire Puget Sound’s interest in Colstrip Units 3 and 4.

Talen Montana owns 30% of Colstrip Unit 3 and does not own any portion of Colstrip Unit 4. However, it is a participant in agreements regarding the ownership and operation of Colstrip Units 3 and 4, whereby Talen Montana is responsible for 15% of the total operating costs and expenditures of Colstrip Unit 3 and 15% of Colstrip Unit 4. Accordingly, it is entitled to 15% of the available generation from each of these units. If the transaction is consummated on the terms of the agreement, assuming no co-owner exercises right of first refusal, Talen Montana will own a 55% share of Colstrip Unit 3 and a 25% share of Colstrip Unit 4 and continue to be the sole operator of both Colstrip Units 3 and 4.

Completed Divestitures

Pennsylvania Minerals Divestiture. In March 2023, Talen sold certain mineral interests located in Pennsylvania for $29 million, while preserving the right to certain royalty payments from existing and future producing natural gas wells. In 2023, For the period January 1 through May 17, 2023 (Predecessor), a $29 million gain was presented as “Other non-operating income (expense), net” on the Condensed Consolidated Statements of Operations.

Western Gas Book Divestiture. In April 2023, Talen sold certain contracts relating to the transportation of natural gas in the southwestern United States for approximately $15 million. For the period January 1 through May 17, 2023 (Predecessor), a $15 million gain was presented as “Other non-operating income (expense), net” on the Condensed Consolidated Statements of Operations.

22. Segments

Talen’s reportable segments are based upon the market areas in which our generation facilities operate and reflect the manner in which our chief operating decision maker function reviews results and allocates resources. Adjusted EBITDA is the key profit metric used to measure financial performance of each segment. Total assets or other asset metrics are not considered a key metric or reviewed by the chief operating decision maker function.

Our reportable segments are engaged in electricity generation, marketing activities, commodity risk and fuel management within their respective RTO or ISO markets. The segments include:

- **PJM** - a reportable segment that includes the operating and marketing activities within the PJM market. PJM is comprised of Susquehanna Nuclear and Talen’s natural gas and coal generation facilities located within the PJM market; and

- **ERCOT and WECC** - a reportable segment that includes the operating and marketing activities within the ERCOT market for the operations of the Talen Texas power generation facilities, and the operating and marketing activities for Talen Montana’s proportionate share of the Colstrip Units. We have determined it appropriate to aggregate results from these markets into one reportable segment, based on a combination of size and economic characteristics.

Corporate, Development, and Other, or CD&O, represents the remaining non-segment grouping that includes: (i) General and administrative expenses incurred by our corporate and commercial functions that are not allocated to our reportable segments; (ii) the development activities of Cumulus Growth; (iii) the development and operating activities of Cumulus Digital; (iv) other immaterial components that are not regularly reviewed by our chief operating decision maker; and (v) intercompany eliminations. This grouping is presented to reconcile the reportable segments to our consolidated results.

Financial data for the segments and reconciliation to consolidated results are:

	Three Months Ended September 30, 2023 (Successor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 343	$ 174	$ (1)	$ 516
Interest expense	—	—	68	68
Capital expenditures	50	5	14	69
Adjusted EBITDA	166	58		224

	Three Months Ended September 30, 2022 (Predecessor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 665	$ 270	$ (9)	$ 926
Interest expense	—	—	88	88
Capital expenditures	91	3	1	95
Adjusted EBITDA	362	35		397

	January 1, 2023 through May 17, 2023 (Predecessor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 1,052	$ 149	$ 9	$ 1,210
Interest expense	—	—	163	163
Capital expenditures	131	4	52	187
Adjusted EBITDA	687	31		718

	May 18, 2023 through September 30, 2023 (Successor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 697	$ 118	$ 2	$ 817
Interest expense	—	—	101	101
Capital expenditures	74	10	19	103
Adjusted EBITDA	240	74		314

	Nine Months Ended September 30, 2022 (Predecessor)			
	PJM	ERCOT and WECC	Corporate, Development, and Other	Total
Operating revenues	$ 1,904	$ 236	$ (126)	$ 2,014
Interest expense	—	—	260	260
Capital expenditures	190	8	3	201
Adjusted EBITDA	668	77		745

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Adjusted EBITDA:					
PJM	$ 166	$ 362	$ 240	$ 687	$ 668
ERCOT and WECC	58	35	74	31	77
Total Adjusted EBITDA	**$ 224**	**$ 397**	**$ 314**	**$ 718**	**$ 745**
Reconciling Items:					
Bankruptcy, Liability Management and Restructuring Activities	$ (4)	$ (389)	$ (30)	$ 782	$ (1,392)
Interest expense and other finance charges	(73)	(93)	(106)	(163)	(265)
Income tax benefit (expense)	16	56	(3)	(212)	104
Depreciation, amortization and accretion	(66)	(126)	(94)	(200)	(396)
Nuclear fuel amortization	(47)	(23)	(72)	(33)	(70)
Unrealized (gain) loss on commodity derivative contracts	(84)	107	(43)	(63)	313
Nuclear decommissioning trust funds gain (loss), net	(24)	(42)	15	57	(233)
Gain (loss) on non-core asset sales, net	—	3	—	50	4
Legal settlements and litigation costs	(17)	—	(17)	(1)	(3)
Unusual market events	—	(1)	(1)	(14)	—
Impairments, canceled projects, inventory net realizable value and obsolescence, and receivables allowance	—	(1)	(3)	(437)	—
Consolidation of subsidiary gain (loss), net	—	(170)	—	—	(170)
Corporate, development and other	(1)	(18)	(5)	(19)	(91)
Net Income (Loss)	**$ (76)**	**$ (300)**	**$ (45)**	**$ 465**	**$ (1,454)**

23. Subsequent Events

Talen Energy Corporation evaluated subsequent events through November 14, 2023, the date the financial statements are available to be issued; all significant subsequent events are included in their respective notes to the financial statements, with the exception of the event described below.

Share Repurchase Program

On October 23, 2023, the Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $300 million of the Company’s outstanding common stock through December 31, 2025. Repurchases may be made from time to time, at the Company’s discretion, in open market transactions at prevailing market prices, negotiated transactions, or other means in accordance with federal securities laws, and may be repurchased pursuant to a Rule 10b5-1 trading plan. The Company intends to fund repurchases from cash on hand. Repurchases by the Company will be subject to a number of factors, including the market price of the Company’s common stock, alternative uses of capital, general market and economic conditions, and applicable legal requirements, and the repurchase program may be suspended, modified or discontinued by the Board of Directors at any time without prior notice. The Company has no obligation to repurchase any amount of its common stock under the repurchase program.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Interim Financial Statements, the Annual Financial Statements, and their accompanying notes. In addition, the following discussion contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements and Significant Business Risks" for additional information on forward-looking statements. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

Overview

Talen owns and operates power infrastructure in the United States. We produce and sell electricity, capacity and ancillary services into wholesale power markets in the United States, primarily in PJM, ERCOT and WECC, with our generation fleet principally located in the Mid-Atlantic, Texas and Montana. While the majority of our generation is already produced at zero-carbon nuclear and lower-carbon gas-fired facilities, we are reducing the carbon profile of our fleet through conversions and retirements of wholly-owned coal facilities. In addition, we are developing a hyperscale data center campus adjacent to our zero-carbon Susquehanna nuclear facility that will utilize carbon-free, low-cost energy provided directly from the plant. Consistent with our risk management initiatives, we may execute physical and financial commodity transactions involving power, natural gas, nuclear fuel, oil and coal to economically hedge and optimize our generation fleet. As of September 30, 2023, our generation capacity was 12,374 MW (summer rating). Talen is headquartered in Houston, Texas.

See "Organizational Structure" and "Generation Fleet" for additional information on our organization and generation portfolio.

Recent Developments

Share Repurchase Program

On October 23, 2023, the Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $300 million of the Company's outstanding common stock through December 31, 2025. Repurchases may be made from time to time, at the Company's discretion, in open market transactions at prevailing market prices, negotiated transactions, or other means in accordance with federal securities laws, and may be repurchased pursuant to a Rule 10b5-1 trading plan. The Company intends to fund repurchases from cash on hand. Repurchases by the Company will be subject to a number of factors, including the market price of the Company's common stock, alternative uses of capital, general market and economic conditions, and applicable legal requirements, and the repurchase program may be suspended, modified or discontinued by the Board of Directors at any time without prior notice. The Company has no obligation to repurchase any amount of its common stock under the repurchase program.

Riverstone Repurchase

In the third quarter 2023, TEC paid Riverstone $40 million in exchange for the cancellation of all of its TEC common stock warrants and a tax indemnity agreement, as well as waiving its future rights to the Retail PPA Incentive Equity. Also, in the third quarter 2023, TES and Orion purchased all of the Class A common units of Cumulus Digital Holdings held by Riverstone for an aggregate purchase price of $20 million, of which TES paid $19 million. See Note 16 in Notes to the Interim Financial Statements for additional information.

Emergence from Restructuring

In May 2022, Talen commenced a reorganization under Chapter 11 of the Bankruptcy Code to allow the Debtors to, among other things, strengthen their financial position and provide additional liquidity to fund their operations and protect their investments in certain energy transition projects.

The Plan of Reorganization became effective in May 2023. At Emergence, TES adopted "fresh start" accounting, which required our assets and liabilities to be remeasured at fair value. Such measurement affected our financial statements beginning in the second quarter 2023 (the period in which we emerged from the Restructuring) and may cause them not to be comparable to our financial statements for prior periods.

Through consummation of the Exit Financings and the Plan of Reorganization, we achieved a significant reduction in debt and interest, provided for full repayment of TES's Prepetition Secured Indebtedness and completed the consensual equitization of all of TES's Prepetition Unsecured Notes and PEDFA 2009A Bonds.

See Notes 2, 3 and 4 in Notes to the Interim Financial Statements for additional information regarding the Restructuring. See "Liquidity and Capital Resources" for additional information on the Exit Financings and Note 13 in Notes to the Interim Financial Statements for additional information on Talen's indebtedness.

Factors Affecting Our Financial Condition and Results of Operations

Earnings in future periods are subject to various uncertainties and risks. See "Forward-Looking Statements and Significant Business Risks" and Notes 5 and 12 in Notes to the Interim Financial Statements and Notes 4 and 16 in Notes to the Annual Financial Statements for additional information on our risks.

Generation Facility Updates

H.A. Wagner Deactivation. In October 2023, for economic reasons, the Company provided a notice to PJM to deactivate H.A. Wagner as of June 1, 2025. The coal-to-fuel oil conversion of H.A. Wagner Unit 3 is expected by the end of 2023 and will allow the generation facility to serve as a capacity resource until deactivation. H.A. Wagner has a capacity of 834 MW. PJM is conducting a reliability impact analysis, with results expected no later than February 2024.

Nueces Bay Unplanned Outages. In September 2023, Nueces Bay Unit 7 entered an unplanned outage due to a generator transformer failure. The repairs are underway and the generation facility is estimated to return to service in late November 2023. The impact of this unplanned outage is not expected to have a material effect on our results of operations or liquidity.

In August 2023, during weather conditions caused by Tropical Storm Harold, one of the Nueces Bay gas turbines required repairs that resulted in a portion of the generation facility entering an unplanned outage for approximately 11 days. The repair costs associated with the unplanned outage were not material.

Montour Coal-to-Natural Gas Conversion. In August 2023, Montour completed its natural gas fuel conversion. Units 1 and 2 are now dispatchable on either coal or natural gas. Permanent retirement of coal at Montour is required by the end of 2025, with an earlier retirement at the Company's election. Montour incurred aggregate conversion capital expenditures of $12 million from May 18 through September 30, 2023 (Successor), $40 million from January 1 through May 17, 2023 (Predecessor) and $66 million for the nine months ended September 30, 2022.

Barney Davis. In June 2023, the Company provided a notice to ERCOT to indefinitely suspend operations of Barney Davis Unit 1 as of November 24, 2023. Subsequently, in October 2023, the Company reassessed its suspension and notified ERCOT of its intent to continue operation of the unit.

Brandon Shores Fuel Conversion Cancellation, Planned Retirement, and Reliability Impact Assessment. In the first quarter 2023, due to increased project costs and declining PJM capacity revenues, management concluded that the lower return on investment to convert Brandon Shores' fuel source from coal to fuel oil no longer met Talen's investment criteria. In April 2023, Brandon Shores notified PJM that it will deactivate electric generation on June 1, 2025. Accordingly, we incurred an aggregate $379 million of non-cash, pre-tax charges, including $361 million for an impairment of the generation facility's asset group and $18 million for net realizable value and obsolescence charges on materials and supplies inventories and coal inventories.

In June 2023, PJM notified Brandon Shores that the units were needed for reliability. Talen subsequently notified PJM that it does not agree to continue to operate Brandon Shores under a Reliability Must Run arrangement. Discussions with PJM are ongoing and may result in Brandon Shores continuing to operate for some period of time until transmission constraints hindering reliability are relieved by PJM. See Notes 8 and 10 in Notes to the Interim Financial Statements for additional information.

Unusual Market Events

Winter Storm Elliott. During December 2022, as a result of Winter Storm Elliott, PJM experienced extreme cold weather conditions that contributed to PJM declaring its first system-wide Maximum Generation Emergency Action since implementing Capacity Performance. PJM claimed that certain of Talen's generation facilities failed to meet the Capacity Performance requirements set forth by PJM, while Talen's remaining generation facilities met or exceeded their capacity obligations. As a result, Talen: (i) incurred certain Capacity Performance penalties charged by PJM for some of its generation facilities; and (ii) earned bonus revenues from PJM for others of its generation facilities.

Talen has recognized an aggregate penalty liability of $51 million, net of expected bonus revenues and has elected to pay its charges to PJM over a nine-month period beginning in April 2023. In 2023, $13 million of penalties were charged for the period from January 1 through May 17, 2023 (Predecessor), as a reduction to "Capacity revenues" on the unaudited Condensed Consolidated Statements of Operations. In September 2023, PJM filed for FERC approval of a settlement agreement that would resolve all Winter Storm Elliot complaints, including those filed by Talen. See Note 12 in Notes to the Interim Financial Statements for additional information on Winter Storm Elliott, complaints filed at FERC disputing charges, the terms and financial impact of the proposed settlement, risks regarding revisions to penalties and other regulatory matters.

Commodity Markets

The following tables summarizes average on-peak power prices and natural gas prices for each of the major markets in which Talen operates for the three months ended September 30, 2023 (Successor) and 2022 (Predecessor). During 2023, despite higher power generation from natural gas generation sources, natural gas prices for Texas Eastern M-3 and Houston Ship Channel settled below each of their ten-year averages resulting from increased natural gas production and increased natural gas held in storage.

In PJM, reduced power demand and lower natural gas prices during 2023 resulting from below-average temperatures during the period contributed to decreased on-peak power prices in the region.

In ERCOT, increased demand resulting from above-average temperatures during 2023 contributed to historic high on-peak power prices and generation in the region.

PJM. The average settled market prices for the three months ended September 30 were:

	2023	2022
PJM West Hub Day Ahead Peak - $/MWh	$ 42.93	$ 111.21
PJM PL Zone Day Ahead Peak - $/MWh	29.46	107.03
PJM BGE Zone Day Ahead Peak - $/MWh	53.27	130.08
Texas Eastern M-3 - $/MMBtu	1.39	7.10

The average January and February forward market prices as of September 30 were:

	2023	2022
2024 PJM West Hub Day Ahead Peak - $/MWh	$ 70.22	$ 107.32
2025 PJM West Hub Day Ahead Peak - $/MWh	72.23	97.21
2024 Texas Eastern M-3 - $/MMBtu	7.15	11.62
2025 Texas Eastern M-3 - $/MMBtu	7.11	9.22

The PJM West Hub Day Ahead Peak quarter average settled prices declined approximately 61% compared to the prior year quarter.

The PJM West Hub 2024 and 2025 January and February average on-peak forward prices decreased approximately 35% and 26%, respectively, compared to the prior year quarter.

ERCOT. The average settled market prices for the three months ended September 30 were:

	2023	2022
ERCOT South Hub Day Ahead Peak - $/MWh	$ 189.00	$ 122.22
ERCOT South Hub Day Ahead Spark Spreads - $/MWh[(a)]	172.33	70.57
Houston Ship Channel - $/MMBtu	2.38	7.35

(a) Spark Spreads are computed based on a heat rate of 7 MMBtu/MWh.

The average July and August forward market prices as of September 30 were:

	2023	2022
2024 ERCOT South Hub Real Time Spark Spreads - $/MWh [(a)]	$ 82.21	$ 39.05
2025 ERCOT South Hub Real Time Spark Spreads - $/MWh [(a)]	55.69	32.90

(a) Spark Spreads are computed based on a heat rate of 7 MMBtu/MWh.

The ERCOT South Hub Day Ahead Peak quarter average settled prices increased approximately 55% compared to the prior year quarter.

The ERCOT South Hub 2024 and 2025 July and August average on-peak forward spark spreads prices increased approximately 111% and 69%, respectively, compared to the prior year quarter.

WECC. The average settled market prices for the three months ended September 30 were:

	2023	2022
Mid-Columbia Day Ahead Peak - $/MWh	$ 97.76	$ 125.75
Sumas - $/MMBtu	3.00	6.74

The average third quarter forward market prices as of September 30 were:

	2023	2022
2024 Mid-Columbia Day Ahead Peak - $/MWh	$ 146.35	$ 129.04
2025 Mid-Columbia Day Ahead Peak - $/MWh	145.48	114.57

The Mid-Columbia Day Ahead Peak quarter average settled prices declined approximately 22% compared to the prior year quarter.

The Mid-Columbia 2024 and 2025 third quarter average on-peak forward prices increased approximately 13% and 27%, respectively, compared to the prior year quarter.

Capacity Market

Approximately 84% of our generation capacity is located in markets with capacity products, which are intended to ensure long-term grid reliability for customers by securing sufficient power supply resources to meet predicted future demand. Capacity prices are affected by supply and demand fundamentals, such as generation facility additions and retirements, capacity imports from and exports to adjacent markets, generation facility retrofit costs, non-performance risk premium penalties, demand response products, ISO demand forecasts, reserve margin targets and adjustments to PJM MSOC as determined by the PJM IMM.

See “Capacity Prices” below for additional information on capacity prices and see Note 12 in Notes to the Interim Financial Statements for additional information on the PJM RPM and other PJM matters.

Capacity Prices. The following table displays the PJM Base Residual Auction’s cleared capacity prices for the markets and zones in which we primarily operate as of September 30, 2023:

	2024/2025	2023/2024	2022/2023	2021/2022
PJM Capacity Performance ($/MW-day) [(a)]				
MAAC	$ 49.49	$ 49.49	$ 95.79	$ 140.00
PPL	49.49	49.49	95.79	140.00
BGE	73.00	69.95	126.50	200.30
EMAAC	54.95	49.49	97.86	165.73
PSEG	54.95	49.49	97.86	204.29
PS North	54.95	49.49	97.86	204.29

(a) Displayed prices are from the applicable market publications.

Seasonality/Scheduled Maintenance

The demand for and market prices of electricity and natural gas are affected by weather. As a result, our operating results in the future may fluctuate substantially on a seasonal basis. For example, a lack of sustained cold weather in the Mid-Atlantic region may suppress regional natural gas prices and reduce our future capacity and energy revenues. Alternatively, above-average temperatures in the summer tend to increase summer cooling electricity demand, energy prices and revenues, and below-average temperatures in the winter tend to increase winter heating electricity demand, energy prices and revenues. Inversely, the milder weather during spring and fall tend to decrease the need for both cooling electricity demand and heating electricity demand. In addition, our operating expenses typically fluctuate geographically on a seasonal basis, with peak power generation during the winter in the Mid-Atlantic region and during the summer in Texas.

We ordinarily perform facility maintenance during lower or non-peak demand periods to ensure reliability during periods of peak usage. The pattern of the fluctuations in our operating results varies depending on the type and location of the power generation facilities being serviced, capacity markets served, the maintenance requirements of our facilities and the terms of bilateral contracts to purchase or sell electricity. The largest and recurring maintenance project is the annual spring refueling outage at Susquehanna. The outages normally occur during late March and into April each year. Susquehanna Unit 2 entered its spring refueling outage on March 20, 2023 and successfully completed the outage on April 24, 2023.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the Interim Financial Statements, the Annual Financial Statements, and their respective notes. Our financial results for the period from January 1 through May 17, 2023 and for the nine-month period from January 1 through September 30, 2022 are referred to as the “Predecessor” period. Our financial results for the period from May 18 through September 30, 2023 are referred to as the “Successor” period. The operating results of May 18 through September 30, 2023 cannot be adequately compared with any of the previous periods reported in the Interim Financial Statements or Annual Financial Statements. Our results of operations as reported in the Interim Financial Statements and Annual Financial Statements are prepared in accordance with GAAP.

In the explanations below, “Energy and other revenues” and “Fuel and energy purchases” are evaluated collectively because the price for power is generally determined by the variable operating cost of the next marginal generator dispatched to meet demand. Energy revenues relate to sales to an ISO or RTO, sales under wholesale bilateral contracts or realized hedging activity. Fuel and energy purchases includes costs for fuel to generate electricity and settlements of financial and physical transactions related to fuel and energy purchases.

In addition, Unrealized gains (losses) on derivatives instruments result from changes in fair value during the period and are presented separately as revenues within “Operating Revenues” and expenses within “Total Energy Expenses” on the Condensed Consolidated Statements of Operations. We evaluate them collectively because they represent the changes in fair value of Talen’s economic hedging activities.

Results for the period from May 18 through September 30, 2023 and the three months ended September 30, 2023 (Successor), the period from January 1 through May 17, 2023 and the three and nine months ended September 30, 2022 (Predecessor)

The following table and subsequent sections display the results of operations for the Successor and Predecessor periods:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Capacity revenues	$ 44	$ 82	$ 70	$ 108	$ 329
Energy and other revenues	600	763	788	1,042	1,420
Unrealized gain (loss) on derivative instruments	(128)	81	(41)	60	265
Operating Revenues	**516**	**926**	**817**	**1,210**	**2,014**
Energy Expenses					
Fuel and energy purchases	(253)	(325)	(310)	(176)	(742)
Nuclear fuel amortization	(47)	(23)	(72)	(33)	(70)
Unrealized gain (loss) on derivative instruments	44	26	(2)	(123)	48
Total Energy Expenses	**(256)**	**(322)**	**(384)**	**(332)**	**(764)**
Operating Expenses					
Operation, maintenance and development	(140)	(131)	(209)	(285)	(448)
General and administrative	(37)	(18)	(55)	(51)	(77)
Depreciation, amortization and accretion	(66)	(126)	(94)	(200)	(396)
Impairments	(2)	—	(2)	(381)	—
Operational restructuring	—	—	—	—	(447)
Other operating income (expense), net	(8)	—	(11)	(37)	(17)
Operating Income (Loss)	**7**	**329**	**62**	**(76)**	**(135)**
Nuclear decommissioning trust funds gain (loss), net	(24)	(42)	15	57	(233)
Interest expense and other finance charges	(68)	(88)	(101)	(163)	(260)
Consolidation of subsidiary gain (loss)	—	(170)	—	—	(170)
Reorganization income (expense), net	—	(385)	—	799	(716)
Other non-operating income (expense), net	(7)	—	(18)	60	(44)
Income (Loss) Before Income Taxes	**(92)**	**(356)**	**(42)**	**677**	**(1,558)**
Income tax benefit (expense)	16	56	(3)	(212)	104
Net Income (Loss)	**(76)**	**$ (300)**	**(45)**	**465**	**(1,454)**
Less: Net income (loss) attributable to noncontrolling interest	1	—	3	(14)	—
Net Income (Loss) Attributable to Members	**$ (77)**	**$ (300)**	**$ (48)**	**$ 479**	**$ (1,454)**

Successor Period — Three Months Ended September 30, 2023

Net Income (Loss) totaled $(77) million for the three months ended September 30, 2023 (Successor). Results were driven by the following:

- *Capacity Revenues* totaled $44 million for the period, which were primarily based on resource clearing prices received from the PJM Base Residual Auction for the 2023/2024 delivery period.
- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $347 million for the period and consisted of $593 million in third-party wholesale electricity sales and ancillary revenues, coupled with $29 million in other revenue; partially offset by $(204) million in fuel and purchased power costs and $(71) million in net realized losses from hedging activities. Other revenues relate to Bitcoin operations of Nautilus that commenced operations in February 2023.
- *Unrealized Gain (Loss) on Derivative Instruments* totaled $(84) million of net loss for the period, which was comprised of unrealized losses incurred as a result of increases in forward power prices, partially offset by unrealized gains from hedging activities reflecting a reversal of previously recorded unrealized losses on settled positions.
- *Nuclear Fuel Amortization* totaled $(47) million for the period and was related to the amortization of nuclear fuel costs that were previously capitalized to property, plant and equipment. Activity in this period included $(24) million of additional amortization related to certain nuclear contracts as a result of fair value adjustments. See Note 4 in Notes to the Interim Financial Statements for additional information.
- *Operation, Maintenance, and Development* totaled $(140) million for the period. This consists of generation facility operating costs, including salary and benefit costs, the costs of removal, repairs and maintenance that are not capitalized, contractor costs, and certain materials and supplies.
- *Depreciation, Amortization and Accretion* totaled $(66) million for the period. This consists of depreciation of long-lived property, plant and equipment, and accretion related to AROs.
- *Nuclear Decommissioning Trust Funds Gain (Loss), net,* totaled $(24) million for the period and was related to realized and unrealized gains (losses) that occurred in Talen's NDT fund driven by unrealized gains on equity securities. See Notes 9 and 14 in Notes to the Interim Financial Statements for additional information on the NDT.
- *Interest Expense and Other Finance Charges* totaled $(68) million for the period and primarily consisted of interest expense related to the Secured Notes, TLB, TLC, LMBE-MC TLB, Cumulus Digital TLF, and certain LC fees.

Predecessor Period — Three Months Ended September 30, 2022

Net Income (Loss) totaled $(300) million for the three months ended September 30, 2022 (Predecessor). Results were driven by the following:

- *Capacity Revenues* totaled $82 million for the period and were primarily based on resource clearing prices received from the PJM Base Residual Auction for the 2022/2023 delivery period.
- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $438 million for the period and consisted of $1,051 million in third-party wholesale electricity sales and ancillary revenues, partially offset by $(371) million in fuel and purchased power costs, and $(242) million in net realized losses from hedging activities.
- *Unrealized Gain (Loss) on Derivative Instruments* totaled $107 million of net gains for the period, which was comprised of unrealized gains from hedging activities reflecting a reversal of previously recorded unrealized losses on settled positions, partially offset by unrealized losses incurred as a result of increases in forward power prices.

- *Operation, Maintenance, and Development* totaled $(131) million for the period. This consists of generation facility operating costs, including salary and benefit, the costs of removal, repairs and maintenance that are not capitalized, contractor costs and certain materials and supplies.

- *Depreciation, Amortization and Accretion* totaled $(126) million for the period and consisted of depreciation of long-lived property, plant and equipment, intangibles and accretion related to AROs. The 2022 Predecessor period was impacted by new rates related to the change in useful lives for the generation facilities.

- *Nuclear Decommissioning Trust Funds Gain (Loss), net*, totaled $(42) million for the period and was driven by unrealized losses on equity securities, net of realized gains in Talen's NDT fund. See Notes 9 and 14 in Notes to the Interim Financial Statements for additional information.

- *Interest Expense and Other Finance Charges* totaled $(88) million for the period and primarily consisted of interest expense incurred on the following debt instruments: Cumulus Digital TLF, LMBE-MC TLB, Prepetition RCF, Prepetition CAF, Prepetition Secured Notes, DIP TLB, and certain LC fees.

- *Consolidation of subsidiary gain (loss)* totaled $(170) million for the period due to the consolidation of Cumulus Digital Holdings in 2022.

- *Reorganization Income (Expense), net*, totaled $(385) million for the period and primarily consisted of losses on debt acceleration and financing and professional fees related to the Restructuring.

- *Income Tax Benefit (Expense)* totaled $56 million for the period and was primarily related to pre-tax losses during the period. See Note 7 in Notes to the Interim Financial Statements for additional information.

Successor Period — May 18, 2023 through September 30, 2023

Net Income (Loss) totaled $(48) million for the period of May 18, 2023 through September 30, 2023 (Successor). Results were driven by the following:

- *Capacity Revenues* totaled $70 million for the period, which were primarily based on resource clearing prices received from the PJM Base Residual Auction for the 2023/2024 delivery period.

- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $478 million for the period and consisted of $729 million in third-party wholesale electricity sales and ancillary revenues, coupled with $44 million in other revenue; partially offset by $(240) million in fuel and purchased power costs, and $(55) million in net realized losses from hedging activities. Other revenues relate to operations of Nautilus that commenced operations in February 2023.

- *Unrealized Gain (Loss) on Derivative Instruments* totaled $(43) million of net losses for the period, which was comprised of unrealized losses incurred as a result of increases in forward power prices, partially offset by unrealized gains from hedging activities reflecting a reversal of previously recorded unrealized losses on settled positions.

- *Nuclear Fuel Amortization* totaled $(72) million for the period and was related to the amortization of nuclear fuel costs that were previously capitalized to property, plant and equipment. Activity in this period included $(38) million of additional amortization related to certain nuclear contracts as a result of fair value adjustments. See Note 4 in Notes to the Interim Financial Statements for additional information.

- *Operation, Maintenance, and Development* totaled $(209) million for the period. This consists of generation facility operating costs, including salary and benefit costs for generation-facility employees, the costs of removal, repairs and maintenance that are not capitalized, contractor costs and certain materials and supplies.

- *Depreciation, Amortization and Accretion* totaled $(94) million for the period. This consists of depreciation of long-lived property, plant and equipment, and accretion related to AROs. The period reflects the effect of fair value adjustments made to property, plant and equipment and AROs upon emergence from Restructuring.

- *Interest Expense and Other Finance Charges* totaled $(101) million for the period and primarily consisted of interest expense incurred on the Secured Notes, Term Loans and LMBE-MC TLB.

Predecessor Period — January 1, 2023 through May 17, 2023

Net Income (Loss) totaled $465 million for the period from January 1, 2023 through May 17, 2023 (Predecessor). Results were driven by:

- *Capacity Revenues* totaled $108 million for the period and were primarily based on resource clearing prices received from the PJM Base Residual Auction for the 2022/2023 delivery period. Capacity revenues were negatively impacted by $13 million of net PJM capacity penalties related to the 2022 Winter Storm Elliot.

- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $866 million for the period and consisted of $637 million in net realized gains from hedging activities, coupled with $343 million in third-party wholesale electricity sales and ancillary revenues and $27 million in other revenue, partially offset by $(141) million in fuel and purchased power costs. Other revenues relate to operations of Nautilus that commenced operations in February 2023.

- *Unrealized Gain (Loss) on Derivative Instruments* totaled $(63) million for the period and consisted of unrealized losses from hedging activities reflecting a reversal of previously recorded unrealized gains on settled positions, partially offset by unrealized gains incurred as a result of decreases in forward power prices.

- *Operation, Maintenance, and Development* totaled $(285) million for the period. This consists of generation facility operating costs, including salary and benefit costs, the costs of removal, repairs and maintenance that are not capitalized, contractor costs and certain materials and supplies.

- *Depreciation, Amortization and Accretion* totaled $200 million for the period and consisted of depreciation of long-lived property, plant and equipment, intangibles and accretion related to AROs. The period was impacted by new depreciation rates related to a change in useful lives for the generation facilities.

- *Other Operating Income (Expense), net*, totaled $(37) million for the period, reflecting fuel inventory net realizable value adjustment expense. See Note 8 in Notes to the Interim Financial Statements for additional information.

- *Reorganization Income (Expense), net*, totaled $799 million for the period, primarily due to the $1,459 million gain on debt discharge recognized upon Emergence partially offset by a $460 million loss on revaluation adjustments. See Note 4 in Notes to the Interim Financial Statements for additional information.

- *Impairments* totaled $381 million in the period and primarily consisted of the assessment of Brandon Shores asset group recoverability associated with a decision to deactivate Brandon Shores on June 1, 2025. See Note 10 in Notes to the Interim Financial Statements for additional information.

- *Nuclear Decommissioning Trust Funds Gain (Loss), net*, was $57 million for the period and was driven by realized and unrealized gains on equity securities as well as dividend and interest income in Talen's NDT fund. See Notes 9 and 14 in Notes to the Interim Financial Statements for additional information.

- *Interest Expense and Other Finance Charges* totaled $163 million for the period and primarily consisted of interest expense incurred on the Prepetition Secured Notes, Prepetition RCF, Prepetition TLB, LMBE-MC TLB and certain LC fees.

- *Other Non-operating Income (Expense), net*, totaled $60 million, primarily due to non-recurring sales during the period. See Note 21 in Notes to the Interim Financial Statements for additional information.

- *Income Tax Benefit (Expense)* totaled $(212) million for the period and was primarily related to federal/ state income taxes, reorganization adjustments and changes in the valuation allowance. See Note 7 in Notes to the Interim Financial Statements for additional information.

Predecessor Period — Nine Months Ended September 30, 2022

Net Income (Loss) totaled $(1,454) million for the nine months ended September 30, 2022 (Predecessor). Results were driven by:

- *Capacity Revenues* totaled $329 million for the period and were primarily based on resource clearing prices received from the PJM Base Residual Auction for the 2021/2022 delivery period.

- *Energy and Other Revenues, net of Fuel and Energy Purchases*, totaled $678 million for the period and consisted of $2,174 million in third-party wholesale electricity sales and ancillary revenues, partially offset by $(861) million in fuel and purchased power costs, $(478) million in net realized losses from hedging activities, and $(157) million in losses incurred on the termination of certain outstanding economic hedges.

- *Unrealized Gain (Loss) on Derivative Instruments* totaled $313 million of net gains for the period, which was comprised of unrealized gains from hedging activities reflecting a reversal of previously recorded unrealized losses on settled positions, partially offset by unrealized losses incurred as a result of increases in forward power prices.

- *Nuclear Fuel Amortization* totaled $(70) million for the period and was related to the amortization of nuclear fuel costs that were previously capitalized to property, plant and equipment.

- *Operation, Maintenance, and Development* totaled $(448) million for the period and consisted of generation facility operating costs, including salary and benefit costs, the costs of removal, repairs and maintenance that are not capitalized, contractor costs and certain materials and supplies.

- *Depreciation, Amortization and Accretion* totaled $(396) million for the period and consisted of depreciation of long-lived property, plant and equipment, intangibles and accretion related to AROs. The 2022 Predecessor period was impacted by new rates related to the change in useful lives for the generation facilities.

- *Operational Restructuring* totaled $(447) million for the period consisting of a charge recognized in the second quarter 2022 related to Talen Energy Marketing retail power contracts that were rejected in connection with the Restructuring. See Note 3 in Notes to the Interim Financial Statements for additional information.

- *Nuclear Decommissioning Trust Funds Gain (Loss), net*, totaled $(233) million for the period and was driven by unrealized losses on equity securities, net of realized gains that occurred in Talen's NDT fund. See Notes 9 and 14 in Notes to the Interim Financial Statements for additional information.

- *Interest Expense and Other Finance Charges* totaled $(260) million for the period and primarily consisted of interest expense incurred on the Prepetition Unsecured Notes, Prepetition Secured Notes, Prepetition RCF, Prepetition TLB, LMBE-MC TLB and certain LC fees.
- *Consolidation of subsidiary gain (loss)* totaled $(170) million for the period due to the consolidation of Cumulus Digital Holdings in 2022.
- *Reorganization Income (Expense), net*, totaled $(716) million for the period and primarily consisted of losses on debt acceleration and financing and professional fees related to the Restructuring.
- *Other Non-operating Income (Expense), net*, totaled $(44) million for the period due to non-recurring professional fees incurred related to liability and other management initiatives.
- *Income Tax Benefit (Expense)* totaled $104 million for the period and was primarily related to pre-tax losses during the period. See Note 7 in Notes to the Interim Financial Statements for additional information.

Liquidity and Capital Resources

Our liquidity and capital requirements are generally a function of: (i) debt service requirements; (ii) capital expenditures; (iii) maintenance activities; (iv) liquidity requirements for our commercial and hedging activities, including cash collateral and other forms of credit support; (v) legacy environmental obligations; and (vi) other working capital requirements.

Our primary sources of liquidity and capital include available cash deposits, cash flows from operations, amounts available under our debt facilities and debt issuance proceeds. Generating sufficient cash flows for our business is primarily dependent on capacity revenue, the production and sale of power at margins sufficient to cover fixed and variable expenses, hedging and optimization strategies to manage price risk exposure and the ability to access a wide range of capital market financing options.

Our hedging strategy is focused on establishing appropriate risk tolerances with an emphasis on protecting cash flows across our generation fleet. Our strong balance sheet provides ample capacity and counterparty appetite for lien-based hedging, which does not require cash collateral posting. Specifically, our hedging strategy prioritizes a first lien-based hedging program in which hedging counterparties are granted a lien in the same collateral securing our first-lien debt obligations. This strategy limits the use of exchange-based hedging and the associated margin requirements, which helps minimize collateral positing requirements. Importantly, there are lower overall hedging needs given the cash-flow stability afforded by the Nuclear PTC and significantly reduced debt service requirements.

We are exposed to financial risks arising from natural business exposures including commodity price and interest rate volatility. Within the bounds of our risk management program and policies, we use a variety of derivative instruments to enhance the stability of future cash flows to maintain sufficient financial resources for working capital, debt service, capital expenditures, debt covenant compliance and (or) other requirements.

In August 2023, we incurred an additional $290 million in aggregate principal amount of the TLB, resulting in proceeds of $285 million, net of original issue discount and other fees. The additional amount, issued as an additional borrowing under the TLB, constitutes a single series of indebtedness with the existing TLB incurred at Emergence. The proceeds of TES's new debt issuance, together with approximately $12 million of cash on hand at LMBE-MC, were used to fully repay an aggregate $297 million settlement amount. The amount included $293 million of aggregate principal amount outstanding under the LMBE-MC TLB with the remaining amount for the settlement of accrued interest and LC fees. The LMBE-MC Credit Agreement along with an aggregate $12 million of outstanding LCs issued under the agreement were terminated at settlement. A See Note 13 for additional information on the LMBE-MC Credit Agreement termination.

In May 2023, effective with Talen's Emergence, Talen completed several secured financing transactions including the issuance of: (i) $1.2 billion aggregate principal of Secured Notes, due 2030; and (ii) approximately $1.1 billion Term Loans, due 2030. See "Indebtedness-Exit Financings" below for additional information. This included settling claims under the Plan of Reorganization such as the cash settlement of the following recourse long-term debt and revolver facility outstanding cash borrowings: DIP TLB; Prepetition TLB; Prepetition Secured Notes; and the Prepetition CAF and the settlement of Prepetition Unsecured Notes and PEDFA 2009A Bonds through the issuance of our common stock. Proceeds from the TLC were initially used to collateralize letters of credit.

See Notes 3, 5, 11 and 19 in Notes to the Interim Financial Statements for additional information regarding various liquidity topics discussed below.

Talen Liquidity

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Cash and cash equivalents, unrestricted	$ 244	$ 724
RCF	700	—
DIP RCF [(a)]	—	267
Available liquidity	**$ 944**	**$ 991**

(a) Extinguished at Emergence in May 2023. See Note 13 in Notes to the Interim Financial Statements for additional information.

Based on current and anticipated levels of operations, industry conditions and market environments in which we transact, we believe available liquidity from financing activities, cash on hand and cash flows from operations (including changes in working capital) will be adequate to meet working capital, debt service, capital expenditures and (or) other future requirements for the next twelve months and beyond.

Financial Performance Assurances

	Successor	Predecessor
	September 30, 2023	December 31, 2022
Outstanding surety bonds	$ 240	$ 248

TES has provided financial performance assurances in the form of surety bonds to third parties on behalf of certain subsidiaries for obligations including, but not limited to, environmental obligations and AROs. Surety bond providers generally have the right to request additional collateral to backstop surety bonds.

Forecasted Uses of Cash

Capital Expenditures and Development Funding. Capital expenditure plans and funding requirements for development activities are revised periodically for changes in operational needs, market conditions, regulatory requirements and cost projections. Accordingly, the expected cash requirements for these projects are subject to revision.

	2023	2024
Generation facilities		
Nuclear fuel	$ 93	$ 88
PJM nuclear generation facility	45	31
PJM fossil generation facilities	41	33
ERCOT and WECC	22	24
Total generation facilities [(a)]	$ 201	$ 176
Investments		
Fuel conversion [(b)]	67	3
Development and other [(c)]	20	13
Total	**$ 288**	**$ 192**

(a) Aggregate interest expected to be capitalized is $7 million in 2023 and an immaterial amount in 2024.
(b) See “Montour Coal-to-Natural Gas Conversion” above for information.
(c) Primarily represents Cumulus Data funding by Talen Energy Supply. See “Cumulus Data Funding” below for additional information.

Cumulus Data Funding. In connection with the development activities of Cumulus Data, Talen Energy Supply, at its discretion, provides incremental funding for Cumulus Data for its development activities. During 2023, Talen Energy Supply has funded an aggregate $15 million in Cumulus Data. As of September 30, 2023, Cumulus Data expects to require an additional $5 million of funding from Talen Energy Supply during 2024 to primarily increase the capacity of electrical infrastructure and $7 million for the required water line infrastructure. Aggregate capital expenditures for Cumulus Data, funded by cash held by Cumulus Data and such additional funding from Talen Energy Supply, is expected to be approximately $60 million for 2023 and $15 million for 2024. See Note 12 in Notes to the Annual Financial Statements for additional information on Cumulus Data.

Projected ARO and Accrued Environmental Liability Cash Flows

We have significant legal obligations related to our ARO and accrued environmental liabilities. As part of the Restructuring, ARO and accrued environmental liabilities were adjusted to fair value, resulting in a new credit-adjusted risk free rate of 8-12% based on timing of cash flows for each underlying obligation.

Our undiscounted projected spending on AROs and accrued environmental liabilities for the remainder of 2023 through 2027 is presented in the table below. The majority of the estimated spend in that time period is related to ash impoundments at Colstrip and Brunner Island. Projections are subject to revision based on changes in estimated inflation rates, changes in the estimated timing of settling AROs and escalating retirement costs.

(in millions)	2023	2024	2025	2026	2027
AROs	$ 9	$ 17	$ 41	$ 56	$ 54
Accrued environmental liabilities	$ 1	$ 3	$ 3	$ 10	$ 1

Indebtedness

Exit Financings. In May 2023, as part of the Exit Financings, Talen consummated several secured financings, the proceeds of which, together with proceeds from the Rights Offering and cash on hand, were used to fund the settlement of the transactions and claims contemplated by the Plan of Reorganization and to provide liquidity and working capital for Talen's business following Emergence. The Exit Financings included the:

- Secured Notes, due 2030, in an aggregate principal amount of $1.2 billion;
- RCF, due 2028, a $700 million revolving credit facility, including LC commitments of $475 million;
- TLB, due 2030, in an aggregate principal amount of $580 million (and subsequently increased to $870 million in August 2023);
- TLC, due 2030, in an aggregate principal amount of $470 million, the proceeds of which are used to cash collateralize LCs under the TLC LCF;
- TLC LCF, which provides commitments for up to $470 million in LCs, cash collateralized with the proceeds of the TLC, and reduced to the extent that borrowings under the TLC are prepaid; and
- Bilateral LCF, which provides commitments for up to $75 million in LCs.

Facility	Maturity	Index	Rate, Applicable Margin, and Amortization	Prepayment Penalty
Secured Notes	June 2030	None	8.625% per annum fixed rate No applicable margin No amortization	**Prior to June 1, 2026:** Redeemable at par plus a customary “make-whole” premium. 10% redeemable during each 12-month period at 103%. 40% redeemable from the proceeds of certain equity offerings at 108.625% **On or after June 1 of the following years:** 2026: 104.313% 2027: 102.156% 2028 and thereafter: 100%
TLB	May 2030	Term SOFR	4.50% per annum applicable margin Amortization 1.00% per annum; paid quarterly	1.00% to the extent prepaid prior to February 9, 2024 in connection with a repricing transaction
TLC (TLC LCF)	May 2030	Term SOFR	4.50% per annum applicable margin No amortization	1.00% to the extent prepaid prior to November 17, 2023 in connection with a repricing transaction
RCF (cash borrowings)	May 2028	Term SOFR	3.50% per annum applicable margin; step-downs to 3.25% and 3.00% based on first lien net leverage ratios in certain fiscal quarters No amortization	None
RCF (letters of credit)	May 2028	Federal Funds Rate	None	None
Bilateral LCF	May 2028	Prime Rate	None	None

Credit Agreement. Obligations under the Credit Agreement are guaranteed by the Subsidiary Guarantors and are secured by liens covering substantially all of TES’s (and its restricted subsidiaries’) consolidated assets, rights and properties, subject to certain exceptions. The Credit Agreement also provides for affirmative and negative covenants applicable to TES (and its restricted subsidiaries), including affirmative covenants requiring it to provide financial and other information to the agents under the Credit Agreement and to not change its lines of business, and negative covenants restricting its (and its restricted subsidiaries’) ability to incur additional indebtedness, make investments, dispose of assets, pay dividends, grant liens or take certain other actions, in each case subject to certain exceptions. TES’s ability to borrow under the Credit Agreement is subject to the satisfaction of certain customary conditions precedent. The Credit Agreement also provides for certain customary events of default, including events of default resulting from non-payment of principal, interest or fees when due, material breaches of representations and warranties, material breaches of covenants in the Credit Agreement or ancillary loan documents, cross-defaults under other material agreements or instruments and the entry of material judgments against TES. Solely with respect to the RCF, and solely during a compliance period (which, in general, is applicable when the aggregate revolving borrowings and issued revolving LCs (in excess of $50 million) exceed 35% of the revolving commitments), the

Credit Agreement includes a covenant that requires the consolidated first lien net leverage ratio not to exceed 2.75 to 1.00 as of June 30, 2023 and increasing through a series of quarterly step-ups to 4.25 to 1.00 as of June 30, 2024 and thereafter. TES has a right to cure a breach of the financial covenant by way of an equity contribution. The financial covenant does not apply to the TLB, the TLC or the TLC LCF.

TLC LCF. The TLC LCF provides commitments for up to $470 million in LCs, cash collateralized with the proceeds of the TLC, with commitments thereunder reduced to the extent that borrowings under the TLC are prepaid. The lenders of the TLC have issued LCs totaling $462 million under the TLC LCF, which have been issued either directly to Talen's counterparties or to lenders under the DIP Facilities to backstop LCs that were previously issued (or continued) thereunder and remain outstanding.

Bilateral LCF. The Bilateral LC Agreement provides for LC issuances that collectively cannot exceed $75 million and expires in May 2028. The Bilateral LC Agreement contains substantially the same covenants, representations and warranties and events of default as the Credit Agreement. The Bilateral LCF includes a covenant that requires TES's consolidated first lien net leverage ratio not to exceed 2.75 to 1.00 as of June 30, 2023 and increasing through a series of step-ups to 4.25 to 1.00 as of June 30, 2024 and thereafter, but such covenant only applies to the extent a compliance period exists under the Credit Agreement. In addition, the Bilateral LC Agreement contains an affirmative covenant requiring disposition of certain minority-owned coal assets. Subject to customary conditions, commitments under the Bilateral LC Agreement can be terminated by the lenders upon an event of default thereunder.

Secured Notes. On May 12, 2023, TES issued $1.2 billion aggregate principal amount of the Secured Notes, which bear interest at 8.625%. Interest on the Secured Notes is payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2023, and at maturity. The Secured Notes mature on June 1, 2030, unless redeemed on an earlier date. The Secured Notes are guaranteed on a senior secured basis by the Subsidiary Guarantors. The secured obligations under the Secured ISDAs were approximately $62 million as of September 30, 2023.

Secured ISDAs. Talen Energy Marketing is party to the Secured ISDAs, a portion of which are continuations of either the Prepetition Secured ISDAs or the DIP Secured ISDAs. Under the Secured ISDAs, TES and the Subsidiary Guarantors provide the applicable counterparties with a first priority lien and security interest (which ranks *pari passu* with the liens securing the Credit Facilities and the Secured Notes) against certain assets in lieu of posting collateral in the form of cash equivalents or LCs.

PEDFA Bonds. The PEDFA 2009B and 2009C Bonds are senior unsecured obligations of TES that are effectively subordinated to the secured obligations of TES, including the Credit Facilities, the Secured Notes and the Secured ISDAs. The guarantees under the PEDFA 2009B and 2009C Bonds are the general unsecured obligations of the Subsidiary Guarantors that guarantee such indebtedness, rank equally with all of the Subsidiary Guarantors' other senior unsecured indebtedness, and are effectively subordinated to the secured obligations of the Subsidiary Guarantors, including the Credit Facilities, the Secured Notes and the Secured ISDAs.

The PEDFA Bonds accrue interest at a variable rate in accordance with the provisions of the trust indentures which is payable monthly. Obligations under the PEDFA Bonds are supported by two irrevocable, direct-pay LCs, each corresponding to the applicable series, that total $133 million and were issued by a third-party lender in favor of the bond trustee in an amount equal to the outstanding principal of each series plus an interest component.

The PEDFA Bonds are subject to customary affirmative and negative covenants appropriate for such indebtedness. The trust indentures governing the PEDFA Bonds do not limit Talen's ability to incur additional unsecured indebtedness. The PEDFA Bonds also contain customary events of default. If an event of default occurs, the holders of PEDFA Bonds will be entitled to take various actions, including the acceleration of any outstanding amounts due.

Cumulus Digital TLF. The Cumulus Digital Credit Agreement provides for a senior secured delayed draw term loan facility in the aggregate maximum committed principal amount of $175 million. The Cumulus Digital Credit Agreement matures in 2027 and bears interest at a rate of 12.50%. All interest accrued thereunder from July 1, 2022 through June 30, 2023 was capitalized as additional principal, i.e. paid-in-kind ("PIK"), and thereafter will be paid in cash.

Obligations under the Cumulus Digital Credit Agreement are guaranteed by Cumulus Digital Holdings and certain of Cumulus Digital's subsidiaries and are secured by first priority liens and security interests in substantially all the assets of Cumulus Digital and each of its subsidiaries (other than the assets of Nautilus but including a pledge of Cumulus Coin's equity in Nautilus), subject to customary exceptions.

The Cumulus Digital Credit Agreement contains customary representations and warranties, affirmative covenants, negative covenants and events of default. Notable covenants include limitations on incurrence of liens and additional indebtedness, payment of dividends and asset sales. In March 2023, the Cumulus Digital Credit Agreement was amended to, among other things, add a requirement that Cumulus Digital procure up to $16 million in equity funding for Cumulus Data to complete construction of the first data center shell and related infrastructure. The required funding was provided during the second quarter of 2023.

Under the Cumulus Digital Credit Agreement, Talen is obligated to procure LCs to backstop certain of Cumulus Digital's obligations under the Cumulus Digital Credit Agreement, and has procured two such LCs totaling $50 million in the aggregate (the "Orion Support LCs"). The Orion Support LCs can be drawn upon, among other events: (i) the acceleration of the facility under the Cumulus Digital Credit Agreement due to an event of default or (ii) a bankruptcy of Cumulus Digital. The amount of the Orion Support LCs will be decreased from time to time based on the outstanding principal balance of the Cumulus Digital Credit Agreement. To the extent of any draw under any of the Orion Support LCs, Cumulus Digital Holdings has agreed to issue additional common equity to Talen to reimburse it for the amount drawn. Cumulus Digital has agreed to reimburse Talen for fees associated with the Orion Support LCs with payment of such amounts deferred until the earlier of: (i) two years from the commercial operation date of the Nautilus facility; and (ii) the date Cumulus Data and Cumulus Coin meet a minimum interest coverage threshold. Talen will have the option to receive payment for the deferred fees in cash payments ratably over the next succeeding 24 months or in additional common units of Cumulus Digital Holdings, subject to certain caps.

Additionally, TEC has provided a guarantee to the lenders under the Cumulus Digital TLF for certain shortfalls in principal and interest payments by Cumulus Digital (up to a maximum of 23% of the principal amount of outstanding loans under the Cumulus Digital TLF). The guarantee will terminate if the principal amount of loans outstanding is reduced to $50 million or less. Amounts are not payable under the guarantee until all available amounts under the Orion Support LCs have been drawn.

Cash Flow Activities

The net cash provided by (used in) operating, investing and financing activities for the Successor period from May 18, 2023 through September 30, 2023 and Predecessor periods from January 1, 2023 through May 17, 2023 and the nine months ended September 30, 2022 were:

	Successor	Predecessor	
	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Operating activities	$ 180	$ 462	$ 225
Investing activities	(108)	(157)	(234)
Financing activities	(62)	(539)	490

Successor Period — May 18, 2023 through September 30, 2023

Operating Cash Flows. Cash provided by operating activities totaled $180 million and consisted of cash provided from the operations of the Company.

Investing Cash Flows. Cash (used in) investing activities totaled $(108) million and primarily consisted of capital expenditures.

Capital expenditures (outflows), including those for nuclear fuel, totaled $(103) million and consisted of: $(60) million across the Company for current projects including the Montour gas conversion project and the Cumulus Data Center Campus; and $(43) million related to nuclear-fuel expenditures as Talen is purchasing its uranium needs for future periods.

Financing Cash Flows. Cash (used) by financing activities totaled $(62) million and primarily consisted of $(59) million for payments to Riverstone to settle warrants and to repurchase Riverstone's noncontrolling interest in Cumulus Digital Holdings. See Note 16 in Notes to the Interim Financial Statements for additional information on these transactions.

Predecessor Period — January 1, 2023 through May 17, 2023

Operating Cash Flows. Cash provided by operating activities totaled $462 million and consisted of cash provided from the operations of the Company, including declines in accounts receivable, partially offset by payments made for accrued interest and other claims at Emergence.

Investing Cash Flows. Cash (used in) investing activities totaled $(157) million and consisted of capital expenditures offset by $46 million in proceeds from the sale of non-core assets. See Note 21 in Notes to the Interim Financial Statements for additional information on the sales.

Capital expenditures (outflows), including those for nuclear fuel, totaled $(187) million and consisted of: $(138) million across the Company for current projects including the Montour gas conversion project, the Cumulus Data Center Campus and Nautilus crypto mining projects and projects at Susquehanna; and $(49) million related to nuclear-fuel expenditures.

Financing Cash Flows. Cash (used in) financing activities totaled $(539) million and consisted of the net effect of issuances and repayments of prepetition debt and make-whole premiums of about $(1.9) billion net cash outflow partially offset by $1.4 billion cash inflow for a contribution from member.

Predecessor Period — Nine Months Ended September 30, 2022

Operating Cash Flows. Cash provided by operating activities totaled $225 million and consisted of cash provided from the operations of the Company including increases to accounts payable and accrued liabilities, accrued interest and other liabilities due to the Restructuring commencement in May 2022.

Investing Cash Flows. Cash (used in) investing activities totaled $(234) million and consisted of capital expenditures and investments in equity method and preferred equity, primarily in Consolidated Cumulus Digital and its subsidiaries before they became fully consolidated subsidiaries, partially offset by $116 million increase to cash due to the consolidation of Cumulus Digital and its subsidiaries that occurred in September 2022.

Capital expenditures (outflows) totaled $(201) million and consisted of: $(123) million across the Company for current projects including the Montour gas co-fire project and projects at Talen's nuclear generation facility; and $(78) million related to nuclear-fuel expenditures.

Financing Cash Flows. Cash provided by financing activities totaled $490 million and consisted of the issuance of DIP Facilities net proceeds of $930 million, after discount and debt issuance costs, and partially offset by repayments on the deferred capacity obligations and inventory repurchase obligations of $(341) million.

Contractual Obligations and Commitments

Guarantees of Subsidiary Obligations

TES guarantees certain agreements and obligations for its subsidiaries. Certain agreements may contingently require payments to a guaranteed or indemnified party. See Note 12 in Notes to the Interim Financial Statements for additional information regarding guarantees.

Quantitative and Qualitative Disclosures About Market Risk

See Note 5 in Notes to the Interim Financial Statements and Note 4 in Notes to the Annual Financial Statements for a description of our market risk.

Non-GAAP Financial Measure

We include Adjusted EBITDA, which the Company uses as a measure of its performance and is not a financial measure prepared under GAAP, in these Interim Financial Statements. Non-GAAP financial measures do not have definitions under GAAP and may be defined and calculated differently by, and not be comparable to, similarly titled measures used by other companies. Non-GAAP measures are not intended to replace the most comparable GAAP measures as indicators of performance. Generally, non-GAAP financial measures are numerical measures of financial performance, financial position, or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Management cautions readers of this financial information not to place undue reliance on this non-GAAP financial measure, but to also consider them along with their most directly comparable GAAP financial measure. Non-GAAP measures have limitations as an analytical tool and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP.

Adjusted EBITDA

We use Adjusted EBITDA to: (i) assist in comparing operating performance and readily view operating trends on a consistent basis from period to period without certain items that may distort financial results; (ii) plan and forecast overall expectations and evaluate actual results against such expectations; (iii) communicate with our Board of Directors, shareholders, creditors, analysts, and the broader financial community concerning our financial performance; (iv) set performance metrics for the Company’s annual short-term incentive compensation; and (v) assess compliance with our indebtedness.

Adjusted EBITDA is computed as net income (loss) adjusted, among other things, for certain: (i) nonrecurring charges; (ii) non-recurring gains; (iii) non-cash and other items; (iv) unusual market events; (v) any depreciation, amortization, or accretion; (vi) mark-to-market gains or losses; (vii) gains and losses on the NDT; (viii) gains and losses on asset sales, dispositions, and asset retirement; (ix) impairments, obsolescence, and net realizable value charges; (x) interest expense; (xi) income taxes; (xii) legal settlements, liquidated damages, and contractual terminations; (xiii) development expenses; (xiv) Cumulus Digital and noncontrolling interests; and (xv) other adjustments. Such adjustments are computed consistently with the provisions of our indebtedness to the extent that they can be derived from the financial records of the business.

Additionally, we believe investors commonly adjust net income (loss) information to eliminate the effect of nonrecurring restructuring expenses, and other non-cash charges which vary widely from company to company, from period to period, and impair comparability. We believe Adjusted EBITDA is useful to investors and other users of the financial statements to evaluate our operating performance because it provides an additional tool to compare business performance across companies and across periods. Adjusted EBITDA is widely used by investors to measure a company’s operating performance without regard to such items described above. These adjustments can vary substantially from company to company depending upon accounting policies, book value of assets, capital structure and the method by which assets were acquired.

The following table presents a reconciliation of the GAAP financial measure of “Net Income (Loss)” presented on the Condensed Consolidated Statements of Operations to the non-GAAP financial measure of Adjusted EBITDA:

	Three Months Ended				
	Successor	Predecessor	Successor	Predecessor	Predecessor
	September 30, 2023	September 30, 2022	May 18 through September 30, 2023	January 1 through May 17, 2023	Nine Months Ended September 30, 2022
Net Income (Loss)	$ (76)	$ (300)	$ (45)	$ 465	$ (1,454)
Less: Bankruptcy, Liability Management, and Restructuring Activities					
Hedge termination losses, net [(a)]	—	—	—	—	158
Reorganization (gain) loss, net [(b)]	—	385	—	(799)	716
Operational and other restructuring activities	(1)	4	21	17	472
Bankruptcy exit fees	5	—	9	—	—
Liability management costs and other professional fees	—	—	—	—	46
Total Bankruptcy, Liability Management, and Restructuring Activities	$ 4	$ 389	$ 30	$ (782)	$ 1,392
Other Adjustments					
Interest expense and other finance charges	73	93	106	163	265
Income tax (benefit) expense	(16)	(56)	3	212	(104)
Depreciation, amortization and accretion	66	126	94	200	396
Nuclear fuel amortization	47	23	72	33	70
Unrealized (gain) loss on commodity derivative contracts	84	(107)	43	63	(313)
Nuclear decommissioning trust funds (gain) loss, net	24	42	(15)	(57)	233
Stock-based and other long-term incentive compensation expense	9	—	11	—	—
Environmental and ARO revisions on fully depreciated property, plant and equipment	—	—	—	—	13
(Gain) loss on non-core asset sales, net [(c)]	—	(3)	—	(50)	(4)
Non-cash impairments	2	—	2	381	—
Legal settlements and litigation costs [(d)]	17	—	17	1	3
Unusual market events [(e)]	—	1	1	14	—
Net periodic defined benefit cost [(f)]	1	3	1	(3)	9
Development expenses	5	4	7	10	5
Non-cash inventory net realizable value, obsolescence, and other charges [(g)]	(2)	1	1	56	—
Consolidation of subsidiary (gain) loss, net [(h)]	—	170	—	—	170
Cumulus Digital activities and noncontrolling interest	(14)	3	(22)	(14)	3
Other	—	(8)	(3)	3	(5)
Total Adjusted EBITDA	$ 224	$ 381	$ 303	$ 695	$ 679

(a) 2022 relates to a nonrecurring charge on terminated power contracts. See Note 5 in Notes to the Interim Financial Statements for additional information.
(b) Represents amounts incurred directly related to Talen's bankruptcy. See Note 3 in Notes to the Interim Financial Statements for additional information.
(c) See Note 21 in Notes to the Interim Financial Statements for additional information.
(d) See Note 12 in Notes to the Interim Financial Statements for additional information for expenses incurred in 2023.
(e) 2023 relates to the true up of capacity penalty charges due to the receipt of final amounts from PJM compared to estimates recognized in 2022 related to Winter Storm Elliot.
(f) Consists of postretirement benefits service cost and postretirement benefits gain (loss).
(g) See Note 8 in Notes to the Interim Financial Statements for additional information.
(h) See Note 12 in Notes to the Annual Financial Statements for additional information on the consolidation of Cumulus Digital Holdings in 2022.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods, as well as related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities and the amount of revenue and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and any such differences may be material. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Financial statements prepared in conformity with GAAP inherently contain the application of appropriate accounting policies and require management to make judgments, estimates and assumptions that affect the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the recognition and disclosures of commitments and contingencies. Relevant historical experience and other various assumptions that are believed to be reasonable form the basis for these judgments, estimates, and assumptions. Additionally, certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions or if different assumptions had been used. We believe the following areas contain the most significant accounting judgments, the highest levels of subjectivity or relate to uncertain matters that are susceptible to changes in estimates. For a more complete discussion of our accounting policies, please see Note 2 to the Interim Financial Statements, as well as the Annual Financial Statements for more information regarding our accounting policies.

Derivative Instruments

Derivative instruments, which assist with commodity-price and interest-rate risk management by our commercial and treasury functions, are presented on our consolidated balance sheet at fair value, either as an asset or liability, and are comprised primarily of commodity contracts and interest rate contracts. Derivative identification is challenging. While a conventional financially settled contract, such as swap or option, generally contains standard terms that facilitate its identification as a derivative instrument, judgment is required to determine whether contracts to buy or sell commodities with physical delivery or contracts which contain certain embedded settlement or fluctuating price features meet the definition of a derivative instrument. This judgment typically includes, among other things, an evaluation of the contract, its expected cash flows and the activity levels of its principal market. Additionally, judgment is required to determine if a commodity contract intended for physical delivery meets an allowable exemption prior to accounting for its income effects under the accrual accounting method rather than at fair value. This typically includes assumptions regarding the probability of physical delivery and the quantities used in normal business activities.

Many derivative contracts economically hedge commodity market prices or interest rates for borrowings, but they do not qualify for, or we do not elect, specialized "hedge accounting." In these instances, the income effect of a derivative instrument is presented on our consolidated statement of operations. The cumulative realized net gains or losses for commodity contract derivatives that are physical energy sales, hedge our generation and hedge other sale activities are presented within "operating revenues" on our consolidated statements of operations. The cumulative realized net gains or losses for commodity contract derivatives that are physical energy purchases, hedge our fuel costs and emissions costs, or other purchase activities are presented within "fuel expenses" on our consolidated statement of operations. Changes in fair value of commodity derivatives are presented as "unrealized gain (loss) on derivative instruments," as a component of either "operating revenues" or "fuel expenses," in a consistent manner with the presentation of its realized net gains or losses. The cumulative net gains or losses for interest rate contracts are presented within "interest expense and other finance charges" on our consolidated statements of operations.

See Note 5 in Notes to the Interim Financial Statements and Note 4 in the Annual Financial Statements for more information on derivative instruments.

Nuclear Decommissioning Asset Retirement Obligations

We have significant legal obligations associated with Susquehanna Nuclear's decommissioning. Susquehanna's Unit 1 and Unit 2 licenses, if not renewed, will expire in 2042 and 2044, respectively, at or before which time the units will shut down.

Judgment is required to make reasonable ARO assumptions regarding the range of likely outcomes, for cost estimates, as these obligations are not expected to be paid until years or decades in the future, and potentially many years after shutdown. Inflation rates and discount rates may be subject to revision until the ARO settlement date. As such, changes in assumptions to the range of likely outcomes could result in different cash outlay for AROs at the settlement date than the current carrying value of the ARO on our consolidated balance sheets. We periodically review ARO carrying values and assess for updates by applying our experience, knowledge and professional judgment to the specific characteristics of the obligation.

AROs are recognized at fair value at the time of installation and as an increase to property, plant, and equipment. The income effect of AROs is generally presented as "Depreciation, amortization, and accretion" on our consolidated statements of operations through the expected ARO settlement date. However, for an asset that has a fully depreciated property, plant, and equipment carrying value, revisions in ARO estimates have an immediate effect in earnings. Revisions to the estimated ARO are presented as "Other operating income (expense), net" on our consolidated statements of operations.

See Note 11 in Notes to the Interim Financial Statements and Note 15 in the Annual Financial Statements for more information on AROs.

Recoverability of Long-Lived Assets

Property, plant, and equipment used in operations are assessed for impairment whenever changes in facts and circumstances indicate the carrying amount of the asset group may not be recoverable. Judgment exists in identifying these events. In certain instances, the events could be external to us and may include, among other events, changes in the economic environment, such as a decrease in the market price of an asset, significant changes to market rules and regulations in the power markets in which we operate and changes in federal or state environmental regulations that would materially affect the cash flows of our generation fleet. In other instances, the events result from negative financial trends, physical damage to assets or decisions of management regarding strategic initiatives, such as sales of assets, generation facility retirements or significant changes in planned capital expenditures or operating costs.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. There is significant judgment in identifying the lowest level of independent cash flows in the merchant power market given certain groups of our generation facilities participate in the same market. In determining the appropriate level of aggregation, we considered the manner in which we make economic decisions regarding the revenue and commercial activities of the generation facilities and the manner in which we make operational and maintenance decisions. Accordingly, we generally aggregate assets for impairment at the reporting unit level, unless there are additional facts and circumstances present which indicate that an asset should be tested for recoverability on a standalone basis. Periodically, we evaluate whether conditions such as changes in market conditions, regulatory changes, or other events require a change in aggregation.

If there is an indication the carrying value of an asset group may not be recovered, we review the expected future cash flows of the asset group. If the sum of the undiscounted pre-tax cash flows is less than the carrying value of the asset group, the asset group is written down to its estimated fair value. Fair value for property, plant, and equipment may be determined by a variety of valuation methods including third-party appraisals, market prices of similar assets, and present value techniques. However, as there is generally a lack of quoted market prices for long-lived assets, the fair value of impaired assets is typically determined based on the present values of expected future cash flows using discount rates which are believed to be consistent with those used by principal market participants. The estimated cash flows and related fair value computations consider all available evidence as of the date of the review such as estimated future generation volumes, capacity prices, energy prices, operating costs, and capital expenditures.

Impairment charges are presented as “other operating income (expense), net” in our consolidated statements of operations in the period in which the impairment determination is made.

See Note 10 in Notes to the Interim Financial Statements and Note 14 in Notes to the Annual Financial Statements for more information on recognized impairments.

Postretirement Benefit Obligations

Our subsidiaries sponsor postemployment benefits that include defined benefit pension plans and health and welfare postretirement plans (other postretirement benefit plans). Accounting for defined benefit pensions and other postretirement benefits involves significant estimates to determine projected benefit obligations and company contribution requirements, which inherently require assumptions be made regarding many uncertainties. Such uncertainties include discount rates, expected return on assets, expected wages for participants at retirement, estimated retirement dates, mortality rates and future health care costs. Over a period of time, we are required to fund all vested benefits for postretirement defined benefit pension plans through plan assets, investment returns or contributions to the plans.

Actuarial assumptions required under GAAP to determine the projected benefit obligations and actuarial assumptions required under the Employee Retirement Income Security Act to determine contribution assumptions differ in their objectives. Actuarial assumptions regarding projected benefit obligations under GAAP affect the net periodic defined benefit cost presented within our consolidated statement of operations. Actuarial assumptions used in the computation to estimate required contributions to the plan affect funding requirements over a period of time.

We are responsible for the estimates regarding our postemployment benefits. However, we engage actuarial firms, who apply professional standards in the determination of the judgmental assumptions for plan contributions, to estimate both the contribution requirements for postemployment benefits and the associated projected benefit obligations under GAAP.

Projected benefit obligations are particularly sensitive to expected return on plan assets and the discount rate. The expected return on plan assets is the estimated long-term rates of return on plan assets that will be earned over the life of each plan. These projected returns reduce the net periodic defined benefit costs. The discount rate is used to compute the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due. Please see Note 15 in Notes to the Interim Financial Statements and Note 21 in Notes to the Annual Financial Statements for the weighted-average assumptions used for discount rate and expected return on plan assets for all plans.

A variance in the discount rate or expected return on plan assets could have a significant impact on postretirement benefit obligations and annual net periodic pension costs. The following table displays the estimated increase / (decrease) of a 1% increase and a 1% decrease in the discount rate and expected return on plan assets on the postretirement benefit obligation and net periodic pension cost as of December 31, 2022.

	Sensitivity	
Actuarial Assumption	**1% Increase**	**1% Decrease**
Discount rate		
Postretirement benefit obligation	$ (127)	$ 152
Net periodic pension cost	2	1
Expected return on plan assets		
Net periodic pension cost	$ (12)	$ 12

Income Taxes

Significant management estimates and judgments are involved to determine the provision for income taxes, deferred tax assets and liabilities and valuation allowances.

An assessment is performed on a quarterly basis to determine the likelihood of realizing deferred tax assets. This assessment includes evaluating positive and negative evidence, such as (i) creation and timing of future taxable income associated with the reversal of deferred tax liabilities in excess of deferred tax assets, (ii) expiration of net operating losses, and (iii) historical amounts of income or losses. Based on this assessment, valuation allowances are recorded to reduce deferred tax assets to the extent necessary to result in an amount that is more likely than not to be realized in future periods.

Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, forecasted financial conditions and results of operations in future periods, as well as results of audits and examinations of filed tax returns by taxing authorities. Please see Note 7 in Notes to the Interim Financial Statements and Note 6 in Notes to the Annual Financial Statements for more information on income taxes.

Recent Accounting Pronouncements

See Note 2 in Notes to our Interim Financial Statements and Note 2 in Notes to the Annual Financial Statements for a description of recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted.

FORWARD-LOOKING STATEMENTS AND SIGNIFICANT BUSINESS RISKS

These Interim Financial Statements contain forward-looking statements concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not statements of historical fact. These statements often include words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “target,” “project,” “forecast,” “seek,” “will,” “may,” “should,” “could,” “would” or similar expressions. Although we believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements.

Such risks and uncertainties include, but are not limited to:

- any continued effects of the Restructuring on our liquidity, results of operations or business prospects or the interests of various constituents;
- our ability to comply with the covenants under the agreements governing our post-Emergence indebtedness;
- the limitations our level of indebtedness may place on our financial flexibility;
- our inability to access the capital markets on favorable terms or at all;
- the availability of cash flows from operations and other funds to finance reserve replacement costs or satisfy our debt obligations;
- risks related to future changes in the market price of electricity, natural gas and other commodities;
- risks related to weather and the demand for electricity;
- declines in wholesale electricity prices or decreases in demand for electricity due to macroeconomic factors;
- risks related to competition in the competitive power generation market;
- adverse developments or losses from pending or future litigation and regulatory proceedings;
- risks related to regulation and compliance with government permits and approvals;
- risks related to environmental regulation of our fossil fuel-fired power generation business and uncertainty surrounding the associated environmental liabilities and asset retirement obligations;
- risks related to potential changes to environmental regulatory requirements related to coal-combustion byproducts, the operation and remediation of coal ash ponds and other regulatory oversight to our operations;
- risks related to armed conflicts, war, terrorist attacks or threats and other significant events, including cyber-based attacks;
- risk related to our reliance on the operations and financial results of Susquehanna to fund our other operations and satisfy our liquidity and other financial requirements;
- risks related to the impact of our operations on the environment, including the risk of exposure to hazardous substances;

- risks associated with Susquehanna, including risks relating to: (i) the operation of, and unscheduled outages at, the facility; (ii) the availability and cost of nuclear fuel and fuel-related components; (iii) increased nuclear industry security, safety and regulatory requirements; and (iv) the substantial uncertainty regarding the storage and disposal of spent nuclear fuel;
- risks related to the continuation of capacity auctions in the PJM ISO, or changes to the capacity auction rules and procedures;
- credit risk and potential concentrations of credit risk resulting from market counterparties, financial institutions, customers and other parties;
- risks related to pandemics, epidemics, outbreaks or other public health events that are outside of our control, and could significantly disrupt our operations and adversely affect our financial condition;
- risks related to potential disruptions in the supply of fuel and other products necessary for the operation of our generation facilities;
- unplanned outages or periods of reduced output at our generation facilities;
- effects of transmission congestion, including due to line maintenance outages, on the realized margins of our generation fleet;
- risks associated with the collection of shared expenses from co-owners of jointly owned facilities;
- the expiration or termination of hedging contracts;
- risks related to our ability to retain and attract a qualified workforce;
- operational, price and credit risks associated with selling and marketing products in the wholesale power markets, including uncertainty around unknown future changes in market constructs, market responses (such as penalties) to extraordinary events and potential negative financial impacts (such as short payments) stemming from shortfalls of other market participants;
- market and liquidity risks arising from our purchase and sale of power, capacity and related products, fuel, transmission services and emission allowances;
- risks related to our generation facilities being part of interconnected regional grids, including the risk of a blackout due to a disruption on a neighboring interconnected system;
- cyber-based security and related integrity risks;
- the impacts of climate change, including related changes in legislation, regulation, market rules or enforcement;
- risks related to any change in the structure and operation of, or the various pricing limitations imposed by, the RTOs and ISOs in regions where our generation is located;
- the availability and cost of emission allowances;
- risks related to our ability to fund and otherwise successfully execute on our carbon deleveraging plans, including our renewable energy, battery storage and digital infrastructure growth projects, and our efforts to repower facilities to run on alternate fuel sources, and the risk that our plans may not achieve its desired results;
- construction and development risks relating to projects undertaken as part of our carbon deleveraging plans, including risks relating to our ability to acquire the necessary permits, the performance of third-party contractors and fluctuating construction costs;

- operational risks relating to the data center and coin campus, including the risk of interruptions to the provision of power, as well as cyber or other breaches of its infrastructure;
- risks relating to our ability to attract and retain customers, including data center tenants or power purchasers for our renewable energy projects, on reasonable business terms or at all;
- risks relating to cryptocurrency mining, including price volatility of digital assets, increasing scrutiny from investors, lenders and other stakeholders and the likelihood of increased regulation of digital assets; and
- other risks identified in these Interim Financial Statements.

We caution you that the foregoing list may not contain all of the forward-looking statements made in these Interim Financial Statements.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in these Interim Financial Statements primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and results of operations. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described elsewhere in these Interim Financial Statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in these Interim Financial Statements. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

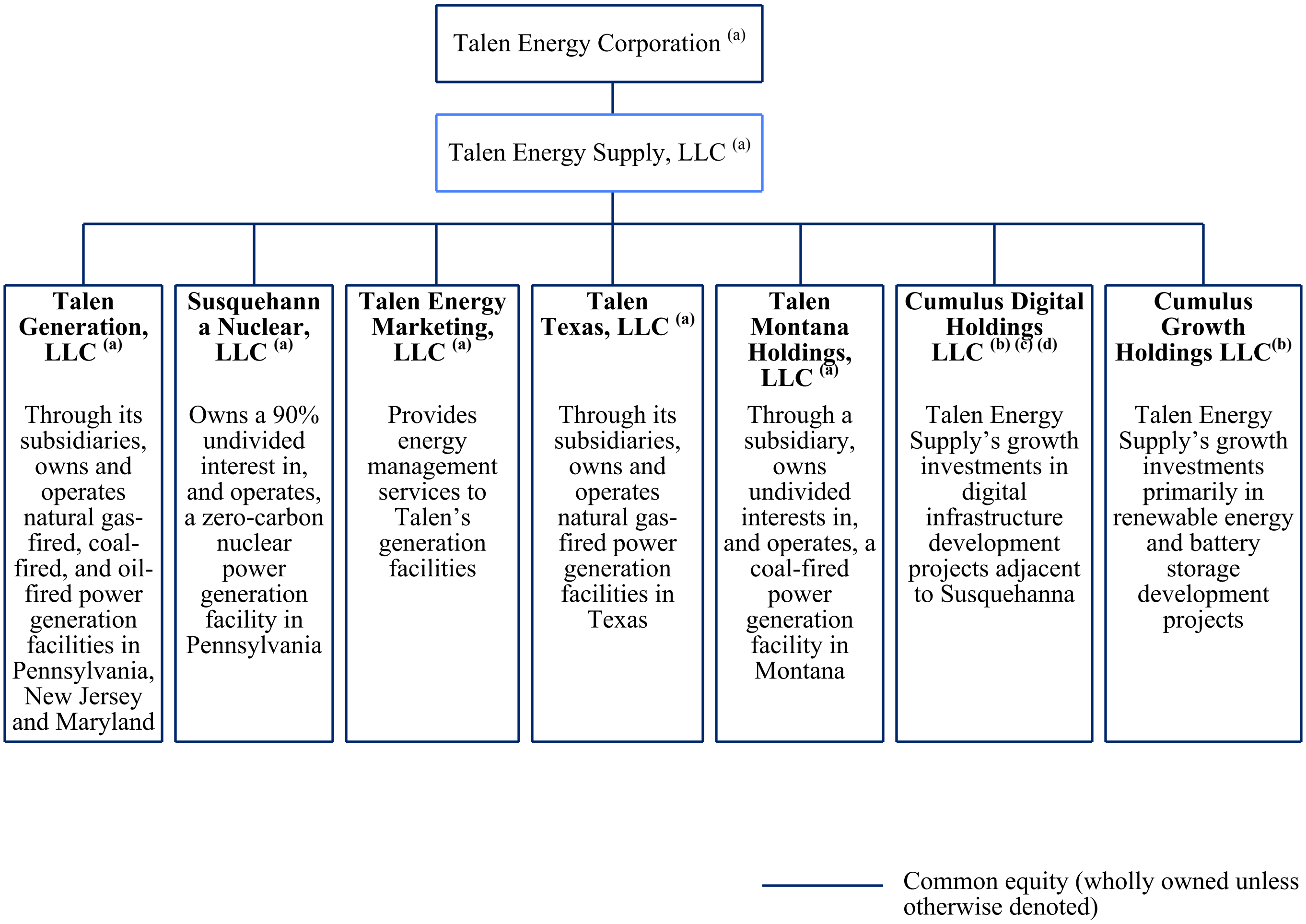
In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of these Interim Financial Statements. While we believe such information provides a reasonable basis for these statements, such information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in these Interim Financial Statements relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in these Interim Financial Statements to reflect events or circumstances after the date of these Interim Financial Statements or to reflect new information, actual results, revised expectations or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

ORGANIZATIONAL STRUCTURE

SEPTEMBER 30, 2023 (UNAUDITED)



(a) See Note 3 in Notes to the Interim Financial Statements for additional information on the Restructuring that was completed in May 2023.
(b) Such entities were not Debtors in the Restructuring that was completed in May 2023.
(c) Cumulus Digital indebtedness is limited-recourse to TES and TEC. See Note 12 for additional information on guarantees and LCs issued.
(d) Talen owns 95% common equity interest in Cumulus Digital Holdings LLC.

TALEN ENERGY CORPORATION AND SUBSIDIARIES

GENERATION FLEET AS OF SEPTEMBER 30, 2023

(UNAUDITED)

Generation Facility	MW Capacity (a)	Percentage Ownership	MW Ownership	Fuel Type	State	Market	Organizational Structure
PJM							
Susquehanna (b)	2,476	90 %	2,228	Nuclear	PA	PJM	Susquehanna Nuclear
Martins Creek	1,716	100 %	1,716	Natural Gas/Oil	PA	PJM	Talen Generation
Montour (c) (h)	1,508	100 %	1,508	Coal/Natural Gas	PA	PJM	Talen Generation
Brunner Island (d) (h)	1,429	100 %	1,429	Coal/Natural Gas	PA	PJM	Talen Generation
Brandon Shores (e)	1,283	100 %	1,283	Coal	MD	PJM	Talen Generation
H.A. Wagner (e) (f)	834	100 %	834	Coal/Natural Gas/Oil	MD	PJM	Talen Generation
Lower Mt. Bethel	606	100 %	606	Natural Gas	PA	PJM	Talen Generation
Conemaugh (b) (h)	1,739	22.22 %	386	Coal	PA	PJM	Talen Generation
Keystone (b) (h)	1,733	12.34 %	214	Coal	PA	PJM	Talen Generation
Camden	145	100 %	145	Natural Gas	NJ	PJM	Talen Generation
Peaking units	13	100 %	13	Oil	MD	PJM	Talen Generation
Total	**13,482**		**10,362**				
ERCOT							
Barney Davis (g)	897	100 %	897	Natural Gas	TX	ERCOT	Talen Texas
Nueces Bay	635	100 %	635	Natural Gas	TX	ERCOT	Talen Texas
Laredo	178	100 %	178	Natural Gas	TX	ERCOT	Talen Texas
Total	**1,710**		**1,710**				
Other Power Markets							
Colstrip Unit 3 (b)	740	30 %	222	Coal	MT	WECC	Talen Montana
Dartmouth	80	100 %	80	Natural Gas/Oil	MA	ISO-NE	Talen NE
Total	**820**		**302**				
Generation Fleet	**16,012**		**12,374**				

(a) Electric generation capacity (summer rating) is based on factors, among others, such as operating experience and physical conditions which may be subject to revision.
(b) See Note 14 in Talen's 2022 Annual Financial Statements for additional information regarding jointly owned facilities.
(c) Montour completed its coal to natural gas fuel conversion in August 2023 with Montour's Unit 3 dispatchable on natural gas or coal.
(d) Coal-fired electric generation is restricted during the EPA Ozone Season, which is May 1 to September 30 of each year.
(e) Notice was provided to PJM of deactivation as of June 1, 2025 for Brandon Shores and H.A. Wagner. See Note 10 in Notes to the Interim Financial Statements for additional information on the Brandon Shores deactivation.
(f) The coal to fuel-oil conversion of H.A. Wagner's Unit 3 is expected to be completed by the end of 2023.
(g) In June 2023, a notice was provided to ERCOT to indefinitely suspend operations of Barney Davis Unit 1, which has a capacity of 292 MW. Subsequently, in October 2023, the Company reassessed its suspension and notified ERCOT of its intent to continue operation of the unit.
(h) Coal-fired electric generation is required to cease at Montour by December 2025 and at Brunner Island, Keystone, and Conemaugh by December 2028 with an earlier retirement of coal at the wholly owned facilities of Montour and Brunner Island at the Company's election.

GLOSSARY OF TERMS AND ABBREVIATIONS

Adjusted EBITDA. Net income (loss) adjusted, among other things, for certain: (i) nonrecurring charges; (ii) non-recurring gains; (iii) non-cash and other items; (iv) unusual market events; (v) any depreciation, amortization or accretion; (vi) mark-to-market gains or losses; (vii) gains and losses on the NDT; (viii) gains and losses on asset sales, dispositions and asset retirement; (ix) impairments, obsolescence and net realizable value charges; (x) interest; (xi) income taxes; (xii) legal settlements, liquidated damages and contractual terminations; (xiii) development expenses; (xiv) Cumulus Digital activities and noncontrolling interest; and (xv) other adjustments.

American Nuclear Insurers. A joint underwriting association that acts on behalf of member companies that writes nuclear liability insurance policies.

Annual Financial Statements. The audited consolidated balance sheets of Talen Energy Supply as of December 31, 2022 and 2021, the related consolidated statements of operations, statements of comprehensive income, statements of cash flows and statements of equity for the fiscal years ended December 31, 2022, 2021 and 2020, and the related notes.

AOCI. Accumulated other comprehensive income or loss, which is a component of stockholder’s equity on the Condensed Consolidated Balance Sheets.

ARO. Asset retirement obligation.

Backstop Commitment Letter. The Backstop Commitment Letter, dated as of May 31, 2022, by and among the Debtors and the Backstop Parties, as subsequently amended, supplemented or otherwise modified.

Backstop Parties. Those certain holders of claims under the Prepetition Unsecured Notes and PEDFA 2009A Bonds party to the Backstop Commitment Letter.

Backstop Premium. A premium, comprised of (i) a periodic premium, paid monthly by the Debtors to each Backstop Party at a rate equal to 10% per annum of each Backstop Party’s portion of the aggregate backstop commitment under the Backstop Commitment Letter and (ii) an additional premium, payable by the Debtors in cash or equity upon consummation of the Plan of Reorganization, equal to 20% of each Backstop Party’s portion of the aggregate backstop commitment under the Backstop Commitment Letter, reduced by the amount of monthly Backstop Premium previously paid.

Bankruptcy Code. Title 11 of the United States Code, 11 U.S.C. §§ 101–1532, as amended.

Bankruptcy Court. The United States Bankruptcy Court for the Southern District of Texas, Houston Division.

Barney Davis. Barney Davis, LLC, a direct subsidiary of Talen Texas that owns and operates a generation facility in Corpus Christi, Texas.

Bilateral LC Agreement. The Letter of Credit Facility Agreement, dated as of May 17, 2023, by and among TES, as borrower, Barclays Bank PLC, as administrative agent and LC issuer, and Citibank, N.A., as collateral agent, which governs the Bilateral LCF, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time.

Bilateral LCF. The senior secured bilateral letter of credit facility in an aggregate committed amount of $75 million under the Bilateral LC Agreement, which is available for the issuance of standby LCs. Obligations under the Bilateral LCF are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

Bitcoin. A virtual digital currency, with no central issuing authority, used in peer-to-peer online transactions.

Board of Directors. The board of directors of Talen Energy Corporation.

Brandon Shores. Brandon Shores LLC, an indirect subsidiary of Talen Generation that owns and operates a generation facility in Curtis Bay, Maryland.

Brunner Island. Brunner Island, LLC, a direct subsidiary of Talen Generation that owns and operates a generation facility in York Haven, Pennsylvania.

CAA. Clean Air Act of 1963. The CAA established a federal program within the U.S. Public Health Service and authorized research into techniques for monitoring and controlling air pollution.

Camden. Camden Plant Holding, LLC, an indirect subsidiary of Talen Generation that owns and operates a generation facility in Camden, New Jersey.

Capacity Factor. The ratio of actual electrical energy output of one or more generating units over a given period of time to the theoretical maximum electrical energy output of the same unit or units over that period.

Capacity Performance. The sole class of capacity product that electricity providers within PJM can offer to satisfy PJM's capacity obligation and thereby receive capacity payments from PJM. Auctions for this opportunity, generally referred to as capacity auctions, are scheduled by PJM periodically, up to three years in advance of the applicable PJM Capacity Year and in accordance with the terms of PJM's Tariff and FERC's orders. Capacity Performance providers assume higher performance requirements during system emergencies and are subject to penalties for non-performance.

CCR. Coal Combustion Residuals, including but not limited to fly ash, bottom ash and gypsum, that are produced from coal-fired electric generation facilities.

CCR Management Unit. A term used by the EPA to refer to areas at regulated CCR facilities where CCR was disposed of or managed on land outside of regulated units at CCR facilities.

Code. The Internal Revenue Code of 1986, as amended.

Colstrip. A generation facility comprised of four coal-fired generation units located in Colstrip, Montana (collectively, the "Colstrip Units"). Talen Montana operates the Colstrip Units, owns an undivided interest in Colstrip Unit 3, and has an economic interest in Colstrip Unit 4. Colstrip Units 1 and 2 were permanently retired in January 2020. See Note 10 in Notes to the Interim Financial Statements and Note 14 in Notes to the Annual Financial Statements for additional information on jointly owned facilities and Talen Montana's ownership interests in the Colstrip Units. See Note 21 in Notes to the Interim Financial Statements and Note 25 in Notes to the Annual Financial Statements for information on a pending acquisition by Talen Montana of additional interests in Colstrip Units 3 and 4.

Colstrip AOC. "Administrative Order on Consent" entered into in 2012 (with minor amendments in 2017) between Talen Montana (on behalf of the co-owners of the Colstrip Units and in its capacity as the operator of Colstrip) and the MDEQ.

Conemaugh. A generation facility located in New Florence, Pennsylvania, in which Talen Generation, through a direct subsidiary, owns a 22.22% undivided interest. Conemaugh is operated by an unaffiliated party. See Note 10 in Notes to the Interim Financial Statements and Note 14 in Notes to the Annual Financial Statements for additional information on jointly owned facilities.

Conemaugh Fuels. Conemaugh Fuels, LLC, an entity in which Talen Generation owns a 22.22% equity interest, which engages in the purchase of coal, the subsequent sale of coal to Conemaugh and other fuel-related activities.

Credit Agreement. The Credit Agreement, dated as of May 17, 2023, by and among TES, as borrower, the lending institutions from time to time parties thereto, Citibank, N.A., as administrative agent and collateral agent, and the joint lead arrangers and joint bookrunners parties thereto, which governs the RCF, the Term Loans and the TLC LCF, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time.

Credit Facilities. Collectively, the RCF, the Term Loans, the TLC LCF and the Bilateral LCF.

Cumulus Affiliates. Collectively includes Cumulus Real Estate Holdings, Cumulus Battery Storage Holdings, Cumulus Renewables Holdings, Cumulus Compute Holdings, Cumulus PT Energy Transitions Holdings, Cumulus Digital Holdings and their respective subsidiaries.

Cumulus Battery Storage Holdings. Cumulus Battery Storage Holdings LLC, a direct subsidiary of Cumulus Growth. Prior to September 2023, Talen Energy Supply held voting, convertible preferred equity units in this entity that provided Talen Energy Supply with a majority equity interest on an as-converted basis. Accordingly, although Cumulus Growth was not a subsidiary of Talen Energy Supply, Talen Energy Supply consolidated Cumulus Battery Storage Holdings and its subsidiaries for financial reporting purposes in accordance with accounting rules. In September 2023, Cumulus Growth became a subsidiary of Talen Energy Supply, and Talen Energy Supply transferred 100% of its preferred equity interests in Cumulus Battery Storage Holdings to Cumulus Growth. Following such transfer, the preferred equity interests were cancelled.

Cumulus Coin. Cumulus Coin LLC, a direct subsidiary of Cumulus Coin Holdings that owns a 75% equity interest in Nautilus as of September 30, 2023.

Cumulus Coin Holdings. Cumulus Coin Holdings LLC, a direct subsidiary of Cumulus Digital that, through its direct subsidiary, Cumulus Coin, owns an equity interest in Nautilus. Talen Energy Supply and Talen Growth previously held voting, convertible preferred equity interests in this entity. In September 2022, in connection with the Cumulus Digital Equity Conversion, the preferred equity interests in this entity were converted to common equity interests in Cumulus Digital Holdings.

Cumulus Compute Holdings. Cumulus Compute Holdings LLC, a direct subsidiary of Cumulus Growth. Prior to September 2023, Talen Energy Supply held voting, convertible preferred equity units in this entity that provided Talen Energy Supply with a majority equity interest on an as-converted basis. Accordingly, although Cumulus Growth was not a subsidiary of Talen Energy Supply, Talen Energy Supply consolidated Cumulus Compute Holdings and its subsidiaries for financial reporting purposes in accordance with accounting rules. In September 2023, Cumulus Growth became a subsidiary of Talen Energy Supply, and Talen Energy Supply transferred 100% of its preferred equity interests in Cumulus Compute Holdings to Cumulus Growth. Following such transfer, the preferred equity interests were cancelled.

Cumulus Data. Cumulus Data LLC, formerly Susquehanna Data LLC, a direct subsidiary of Cumulus Data Holdings that is developing the Cumulus Data Center Campus.

Cumulus Data Holdings. Cumulus Data Holdings LLC, a direct subsidiary of Cumulus Digital and the direct parent of Cumulus Data. Talen Energy Supply and Talen Growth previously held voting, convertible preferred equity interests in this entity. In September 2022, in connection with the Cumulus Digital Equity Conversion, the preferred equity interests in this entity were converted to common equity interests in Cumulus Digital Holdings.

Cumulus Digital. Cumulus Digital LLC, a direct subsidiary of Cumulus Digital Holdings and the direct parent of Cumulus Data Holdings and Cumulus Coin Holdings.

Cumulus Digital COSA. Corporate and Operational Services Agreement, dated as of September 20, 2021, between Talen Energy Supply and Cumulus Digital, pursuant to which Talen Energy Supply provides corporate, administrative and operational services to Cumulus Digital and its subsidiaries. This agreement was amended and restated in September 2022.

Cumulus Digital Credit Agreement. The Credit Agreement, dated as of September 20, 2021, by and among Cumulus Digital and its subsidiaries, Cumulus Digital Holdings and affiliates of Orion, establishing the Cumulus Digital TLF, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time.

Cumulus Digital Equity Conversion. The conversion of preferred equity in Cumulus Coin Holdings and Cumulus Data Holdings held by TES, Talen Growth and Riverstone V Coin Holdings L.P., and the conversion of class B units of Cumulus Digital Holdings held by Orion affiliates, in each case into common equity of Cumulus Digital Holdings, as contemplated by the Cumulus Term Sheet, dated as of August 29, 2022, by and among TES, TEC, Cumulus Digital Holdings, Orion, Riverstone and certain of their respective affiliates, which was an attachment to the fifth amendment to the RSA.

Cumulus Digital Holdings. Cumulus Digital Holdings LLC, a subsidiary of Talen Energy Supply and the direct parent of Cumulus Digital. Prior to September 2022, Cumulus Digital Holdings was a subsidiary of Cumulus Growth. As a result of the Cumulus Digital Equity Conversion, Cumulus Digital Holdings became majority-owned by Talen Energy Supply, with minority interests held by Riverstone and Orion. Accordingly, Talen Energy Supply consolidates this entity and its subsidiaries in accordance with accounting rules. As of September 30, 2023, Talen Energy Supply owns a 95% equity interest in Cumulus Digital Holdings.

Cumulus Digital TLF. The Cumulus Digital term loan facility, due September 2027, under which Cumulus Digital borrowed $175 million to support Cumulus Coin's required contributions to Nautilus, as well as Cumulus Data's construction of certain shared infrastructure supporting both Nautilus and the Cumulus Data Center Campus.

Cumulus Growth. Cumulus Growth Holdings LLC, a direct subsidiary of Talen Energy Corporation in June 2023 that became a direct subsidiary of Talen Energy Supply in September 2023. Prior to September 2022, Cumulus Growth owned common equity interests in Cumulus Digital Holdings. As of June 30, 2023, Cumulus Growth owned 100% of the issued and outstanding common equity interests in Cumulus Renewables Holdings, Cumulus Battery Storage Holdings, Cumulus Compute Holdings, Cumulus Real Estate Holdings and Cumulus PT Energy Transitions Holdings. While Cumulus Growth owned the issued and outstanding common equity in these entities, Talen Energy Supply held voting, convertible preferred equity interests in these entities that, on an as-converted basis, entitled Talen Energy Supply to majority control. In September 2023, Talen Energy Corporation contributed 100% of its common equity interests in Cumulus Growth to Talen Energy Supply, and Talen Energy Supply contributed 100% of its preferred equity interests in the above entities to Cumulus Growth.

Cumulus PT Energy Transitions Holdings. Cumulus PT Energy Transitions Holdings LLC, a direct subsidiary of Cumulus Growth. Cumulus PT Energy Transitions Holdings owns a 50% interest in a joint venture entity with Pattern Energy that is intended to hold early-stage development assets prior to the formation of project-specific joint venture entity. Prior to September 2023, Talen Energy Supply held voting, convertible preferred equity units in this entity that provided Talen Energy Supply with a majority equity interest on an as-converted basis. Accordingly, although Cumulus Growth was not a subsidiary of Talen Energy Supply, Talen Energy Supply consolidated Cumulus PT Energy Transitions Holdings and its subsidiaries for financial reporting purposes in accordance with accounting rules. In September 2023, Cumulus Growth became a subsidiary of Talen Energy Supply, and Talen Energy Supply transferred 100% of its preferred equity interests in Cumulus PT Energy Transitions Holdings to Cumulus Growth. Following such transfer, the preferred equity interests were cancelled.

Cumulus Real Estate Holdings. Cumulus Real Estate Holdings LLC, a direct subsidiary of Cumulus Growth. Prior to September 2023, Talen Energy Supply held voting, convertible preferred equity units in this entity that provided Talen Energy Supply with a majority equity interest on an as-converted basis. Accordingly, although Cumulus Growth was not a subsidiary of Talen Energy Supply, Talen Energy Supply consolidated Cumulus Real Estate Holdings and its subsidiaries for financial reporting purposes in accordance with accounting rules. In September 2023, Cumulus Growth became a subsidiary of Talen Energy Supply, and Talen Energy Supply transferred 100% of its preferred equity interests in Cumulus Real Estate Holdings to Cumulus Growth. Following such transfer, the preferred equity interests were cancelled.

Cumulus Renewables Holdings. Cumulus Renewables Holdings LLC, a direct subsidiary of Cumulus Growth. Prior to September 2023, Talen Energy Supply held voting, convertible preferred equity units in this entity that provided Talen Energy Supply with a majority equity interest on an as-converted basis. Accordingly, although Cumulus Growth was not a subsidiary of Talen Energy Supply, Talen Energy Supply consolidated Cumulus Renewables Holdings and its subsidiaries for financial reporting purposes in accordance with accounting rules. In September 2023, Cumulus Growth became a subsidiary of Talen Energy Supply, and Talen Energy Supply transferred 100% of its preferred equity interests in Cumulus Renewables Holdings to Cumulus Growth. Following such transfer, the preferred equity interests were cancelled.

Dartmouth. Dartmouth Power Associates Limited Partnership, an indirect subsidiary of Talen NE LLC that owns and operates a generation facility in Dartmouth, Massachusetts.

Debtors. Prior to December 12, 2022, Talen Energy Supply and all of its direct and indirect subsidiaries, other than: (i) LMBE-MC Holdco and its subsidiaries, (ii) TRF and (iii) the Cumulus Affiliates. From and after December 12, 2022, the foregoing Debtors together with TEC. See Note 3 in each of Notes to the Interim Financial Statements and Notes to the Annual Financial Statements for additional information.

DIP Facilities. Collectively, the DIP RCF, DIP TLB and DIP LCF.

DIP LCF. The letter of credit facility established under the Debtors' Superpriority Secured Debtor-In-Possession Letter of Credit Facility Agreement, dated as of May 11, 2022, which provided for LCs outstanding under the Prepetition RCF as of commencement of the Restructuring to remain outstanding with superpriority status.

DIP RCF. The revolving credit facility that provided aggregate revolving commitments of $300 million, including a letter of credit sub-facility of up to $75 million, under the Debtors' Superpriority Secured Debtor-In-Possession Credit Agreement, dated as of May 11, 2022.

DIP Secured ISDAs. Certain bilateral secured International Swaps and Derivatives Association ("ISDA") agreements of Talen Energy Marketing, the obligations under which were secured by a superpriority lien and security interest in substantially all of the assets of Talen Energy Supply and the Debtors.

DIP TLB. The term loan B facility in an aggregate principal amount of $1 billion under the Debtors' Superpriority Secured Debtor-In-Possession Credit Agreement, dated as of May 11, 2022.

EBITDA. Net income (loss) before interest expense and other finance charges, income taxes, depreciation and certain amortization.

EGU. Electric Generating Unit.

EIS. Environmental Impact Statement related to mining permits.

Emergence. May 17, 2023, the date that the Plan of Reorganization became effective in accordance with the terms thereof and the Debtors emerged from the Restructuring.

Employee Retirement Income Security Act. A federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry.

EPA. U.S. Environmental Protection Agency.

EPA 2015 Ozone Standard. In 2015, the EPA strengthened the NAAQS for ground-level ozone to 70 parts per billion ("ppb"), based on extensive scientific evidence about ozone's effects on public health and welfare.

EPA CCR Rule. National regulatory standards required by the EPA for the management of CCRs in landfills and surface impoundments.

EPA CSAPR. The Cross-State Air Pollution Rule, which requires 28 states in the eastern half of the U.S. to reduce power plant emissions that cross state lines and contribute to ground-level ozone and fine particle pollution in other states. A cap-and-trade system is used to reduce the target pollutants—sulfur dioxide and nitrogen oxides.

EPA ELG Rule. Effluent limitation guidelines, which are national regulatory standards required by the EPA for wastewater discharged from specific industrial categories, including but not limited to coal-fired electric generation facilities, to surface waters and municipal sewage treatment plants.

EPA MATS Rule. Mercury and Air Toxics Standards, EPA technology-based emissions standards for mercury and other hazardous air pollutants emitted by generation units with a capacity of more than 25 megawatts.

EPA NAAQS. National Ambient Air Quality Standards, which define the maximum amount of a pollutant averaged over a specified period of time that can be present in outdoor air without harming public health.

EPA NESHAP. National Emissions Standards for Hazardous Air Pollutants, an EPA standard that is applicable to the emissions of hazardous air pollutants produced by corporations, institutions and government agencies.

EPA RTR. The EPA's Risk and Technology Review of the EPA NESHAP, which is a combined effort to evaluate both risk and technology as required by the CAA after the application of maximum achievable control technology standards.

EPS. Earnings per share.

ERCOT. The Electric Reliability Council of Texas, operator of the electricity transmission network and electricity energy market in most of Texas, which is responsible for, among other things, scheduling electric deliveries and performing financial settlements for the competitive wholesale bulk-power market.

ESG. Environmental, social and corporate governance.

Exit Financings. TES's issuance of the Secured Notes and entry into the Credit Facilities in connection with Emergence.

Federal Funds Rate. The interest rate at which banks lend and borrow their excess reserves to each other overnight.

Federal Quiet Title Act. A federal statute that provides for legal proceedings to determine ownership of real property.

FERC. U.S. Federal Energy Regulatory Commission. FERC regulates interstate transmission and wholesale sales of electricity, interstate transportation of natural gas and oil, hydropower projects and natural gas terminals.

GAAP. Generally Accepted Accounting Principles in the United States.

GW. Gigawatt, one million kilowatts of electric power.

H.A. Wagner. H.A. Wagner LLC, an indirect subsidiary of Talen Generation that owns and operates a generation facility in Curtis Bay, Maryland.

IBEW. International Brotherhood of Electrical Workers, a labor union.

Inflation Reduction Act. The Inflation Reduction Act of 2022, which was signed into law in August 2022. Among the Inflation Reduction Act's provisions are: (i) amendments to the Code to create a nuclear production tax credit program; (ii) the creation, extension and modification of tax credit programs for certain clean energy projects, such as solar, wind and battery storage; and (iii) adjustments to corporate tax rates.

Interim Financial Statements. The unaudited condensed consolidated balance sheet of TEC as of September 30, 2023, the related condensed consolidated statements of operations, statements of comprehensive income, statements of cash flows, and statements of equity for the period from January 1, 2023 through May 17, 2023 (Predecessor) and for the period from May 18, 2023 through September 30, 2023 (Successor), and for the period ended September 30, 2022, and of cash flows for the Predecessor period, the Successor period, and nine-month period ended September 30, 2022, and the related notes.

ISO. Independent System Operator.

Keystone. A generation facility located in Shelocta, Pennsylvania, in which Talen Generation, through a direct subsidiary, owns a 12.34% undivided interest. Keystone is operated by an unaffiliated party. See Note 10 in Notes to the Interim Financial Statements and Note 14 in Notes to the Annual Financial Statements for additional information on jointly owned facilities.

Laredo. Laredo, LLC, a direct subsidiary of Talen Texas that owns and operates a generation facility in Laredo, Texas.

LC. Letter of credit.

LMBE-MC. LMBE-MC HoldCo II LLC, a direct subsidiary of LMBE-MC Holdco that, through its subsidiaries, owns generation facility operations in Pennsylvania and was the borrower under the LMBE-MC TLB and LMBE-MC RCF.

LMBE-MC Credit Agreement. The Credit and Guaranty Agreement, dated as of December 3, 2018, among LMBE-MC, as borrower, LMBE-MC Holdco, as holdings, the guarantors named therein, MUFG Union Bank, N.A., as initial issuing bank and MUFG Bank, LTD, as administrative agent, which governs the LMBE-MC RCF and the LMBE-MC TLB, as the same may be amended, amended and restated, supplemented or otherwise modified from time-to-time. The LMBE-MC Credit Agreement was terminated in August 2023.

LMBE-MC Holdco. LMBE-MC HoldCo I LLC, a direct subsidiary of Talen Generation and the parent of LMBE-MC that, through its subsidiaries, owns generation facility operations in Pennsylvania.

LMBE-MC RCF. The revolving credit facility, including a letter of credit sub-facility, maturing in December 2023, established under the LMBE-MC Credit Agreement. Obligations under the LMBE-MC RCF were guaranteed by LMBE-MC Holdco and its subsidiaries and secured by a first priority lien and security interest in substantially all of their assets. The LMBE-MC RCF was terminated in August 2023. See Note 13 in Notes to the Interim Financial Statements for additional information.

LMBE-MC TLB. The term loan B facility, due December 2025, established under the LMBE-MC Credit and Guaranty Agreement. Obligations under the LMBE-MC TLB were guaranteed by LMBE-MC Holdco and its subsidiaries and secured by a first priority lien and security interest in substantially all of their assets. The LMBE-MC TLB was repaid in full and terminated in August 2023. See Note 13 in Notes to the Interim Financial Statements for additional information.

Lower Mt. Bethel. LMBE Project Company LLC, a direct subsidiary of LMBE-MC that owns and operates a generation facility in Bangor, Pennsylvania.

Martins Creek. MC Project Company LLC, a direct subsidiary of LMBE-MC that owns and operates a generation facility in Bangor, Pennsylvania.

Maximum Generation Emergency Action. An action to increase the PJM RTO generation above the maximum economic level. It is implemented whenever generation is needed over what can be economically procured. Following issuance of a Maximum Generation Emergency Action, PJM may purchase available generation from any PJM member (as an emergency) that is available up to the amount required or until available generation is depleted.

MBER. Montana Board of Environmental Review, a state-level government agency responsible for administering environmental regulatory, clean up, monitoring, pollution prevention and energy conservation laws.

MDEQ. Montana Department of Environmental Quality, which is responsible for regulating air, water and ground resources to administer Montana’s environmental and mine reclamation laws.

MEIC. Montana Environmental Information Center, a non-partisan, non-profit environmental advocacy group.

MMBtu. One million British Thermal Units.

Montour. Montour, LLC, a direct subsidiary of Talen Generation that owns and operates a generation facility in Washingtonville, Pennsylvania.

MW. Megawatt, one thousand kilowatts (one million watts) of electric power.

MWh. Megawatt hour, or megawatts of electric power per hour.

Nautilus. Nautilus Cryptomine LLC, a joint venture owned, as of September 30, 2023, 75% by Cumulus Coin and 25% by TeraWulf, which owns and operates a cryptomining project on land leased from Cumulus Data at the Cumulus Data Center Campus.

Nautilus FOA. Facilities Operation Agreement between Nautilus and Talen Energy Supply, whereby Talen Energy Supply agreed to provide, or arrange for Nautilus, certain infrastructure, construction, operations and maintenance and administrative services necessary to build out and operate the Nautilus facility and to support Nautilus' ongoing business at the Nautilus facility. Talen Energy Supply is entitled to reimbursement of its costs (including direct personnel costs) incurred in performing the services on a monthly basis but is not otherwise entitled to a management fee. The Nautilus FOA expires in December 2025.

NAV. Net asset value.

NCI. Non-controlling interest.

NDT. Nuclear facility decommissioning trust for Susquehanna.

NEIL. Nuclear Electric Insurance Limited.

NEPA. National Environmental Policy Act, which requires federal agencies to assess the environmental effects of their proposed actions prior to making decisions. The range of actions covered by NEPA is broad and includes making decisions on permit applications, adopting federal land management actions, and constructing highways and other publicly-owned facilities.

NERC. North American Electric Reliability Corporation, a not-for-profit international regulatory authority whose mission is to assure the effective and efficient reduction of risks to the reliability and security of the grid.

NorthWestern. NorthWestern Corporation d/b/a NorthWestern Energy, a co-owner in Colstrip.

NRC. U.S. Nuclear Regulatory Commission, which was created as an independent agency by Congress in 1974 to ensure the safe use of radioactive materials for beneficial civilian purposes while protecting people and the environment. The NRC regulates commercial nuclear power plants and other uses of nuclear materials, such as in nuclear medicine, through licensing, inspection and enforcement of its requirements.

Nuclear PTC. The nuclear production tax credit under the Inflation Reduction Act.

Nueces Bay. Nueces Bay, LLC, a direct subsidiary of Talen Texas that owns and operates a generation facility in Corpus Christi, Texas.

Operating Reserve Demand Curve. A market mechanism that values operating reserves in the wholesale electric market based on the scarcity of those reserves and reflects that value in energy prices.

Orion. Orion Energy Partners, whose affiliates are third-party lenders under in the Cumulus Digital TLF.

OSM. U.S. Office of Surface Mining Reclamation and Enforcement.

Ozone Season. A period of time in which ground-level ozone reaches its highest concentrations in the air.

Ozone Transport Commission. A multi-state organization created under the CAA responsible for advising the EPA and implementing regional solutions to ground-level ozone issues.

PA DEP. Pennsylvania Department of Environmental Protection, the agency in the state of Pennsylvania responsible for protecting and preserving the land, air, water and public health through enforcement of the state's environmental laws.

Pattern Energy. Pattern Renewables 2 LP, an unaffiliated third party in which Riverstone holds a minority interest.

PEDFA Bonds. The following series of Pennsylvania Economic Development Financing Authority ("PEDFA") Exempt Facilities Revenue Refunding Bonds: Series 2009A due December 2038 ("PEDFA 2009A Bonds"); Series 2009B due December 2038 ("PEDFA 2009B Bonds"); and Series 2009C due December 2037 ("PEDFA 2009C Bonds"). All series of the PEDFA Bonds were guaranteed by certain of the Prepetition Guarantors. Holders of the PEDFA 2009A Bonds received TEC common stock in connection with the Restructuring in satisfaction of their claims. The PEDFA 2009B Bonds and PEDFA 2009C Bonds currently remain outstanding and are guaranteed by certain of the Subsidiary Guarantors.

PIK. Paid-in-kind.

PJM. PJM Interconnection, L.L.C., the RTO that operates the electricity transmission network and wholesale power market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PJM ACR. PJM's "Avoidable Cost Rate" defined under the PJM Open Access Transmission Tariff, if the formula that serves as the PJM MSOC.

PJM Base Residual Auction. A component of the PJM RPM, the PJM Base Residual Auction, is intended to secure power supply resources from market participants in advance of the PJM Capacity Year. It is usually held during the month of May three years prior to the start of the PJM Capacity Year.

PJM Capacity Year. PJM capacity revenues delivery years cover the period from June 1 to May 31.

PJM IMM. Independent Market Monitor for PJM, who is intended to operate independently from PJM staff and members to objectively monitor, investigate, evaluate and report on PJM's markets and is responsible for guarding against the exercise of market power.

PJM MOPR. Minimum Offer Price Rule, which limits the minimum price at which certain units can bid into the auction due to certain external subsidization.

PJM MSOC. PJM Market Seller Offer Cap, which is the price ceiling applied by PJM to certain capacity sell offers and is based on the PJM ACR.

PJM RPM. PJM's capacity market, or the Reliable Pricing Model, formed under PJM's Open Access Transmission Tariff, which is intended to ensure long-term grid reliability by securing the appropriate amount of power supply resources needed to meet predicted energy demand in the future. Under PJM's "pay-for-performance" model, generation resources are required to deliver on demand during system emergencies or owe a payment for non-performance.

Plan of Reorganization. The *Joint Chapter 11 Plan of Reorganization of Talen Energy Supply, LLC and Its Affiliated Debtors* [Docket No. 1206], as subsequently amended, supplemented or otherwise modified, and any exhibits or schedules thereto.

PP&E. Property, plant and equipment.

PPL. PPL Corporation, the former indirect parent holding company of Talen Energy Supply and Talen Energy Corporation until the Talen Formation Transactions in 2015.

Predecessor. Relates to the financial position or results of operations of Talen Energy Supply for periods prior to Emergence, or May 17, 2023.

Prepetition CAF. The Credit Agreement, dated as of December 14, 2021, as subsequently amended, supplemented or otherwise modified, among Talen Energy Supply, as parent, Talen Energy Marketing and Susquehanna, as borrowers, the lenders party thereto, and Alter Domus (US) LLC, as administrative agent, which established a senior secured commodity accordion revolving credit facility. Obligations under the Prepetition CAF were guaranteed by the Prepetition Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Deferred Capacity Obligations. Prepetition obligations arising under an auction specific MW transaction confirmation, executed in March 2021, between Talen and an unaffiliated third party, which involved the transfer by a Talen subsidiary to the third party of capacity rights and revenues associated with physical MW of capacity cleared under the PJM capacity auctions for planning years 2020/2021 and 2021/2022. These obligations had been fully performed as of June 2022.

Prepetition Guarantors. Certain wholly owned subsidiaries of Talen Energy Supply that guaranteed obligations under the Prepetition Indebtedness and the Prepetition Secured ISDAs.

Prepetition Indebtedness. Collectively, the Prepetition RCF, Prepetition TLB, Prepetition CAF, Prepetition Secured Notes, Prepetition Unsecured Notes and PEDFA Bonds.

Prepetition LCF-1. Talen Energy Supply's prepetition unsecured, bilateral LC facility with Credit Suisse International. Obligations under the Prepetition LCF-1 were guaranteed by the Prepetition Guarantors. The Prepetition LCF-1 expired in June 2023.

Prepetition LCF-2. Talen Energy Supply's prepetition unsecured, bilateral LC facility with Goldman Sachs Bank USA. Obligations under the Prepetition LCF-2 were guaranteed by the Prepetition Guarantors. The Prepetition LCF-2 was terminated in May 2023.

Prepetition RCF. The Credit Agreement dated as of June 1, 2015, as subsequently amended, supplemented or otherwise modified, among Talen Energy Supply, as borrower, Citibank, N.A., as administrative agent and collateral trustee, and the lenders party thereto, which established a senior secured revolving credit facility, including an LC sub-facility, which was subsequently amended to an LC-only facility. Obligations under the Prepetition RCF were guaranteed by the Prepetition Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Secured Indebtedness. Collectively, the Prepetition RCF, Prepetition TLB, Prepetition CAF and Prepetition Secured Notes.

Prepetition Secured ISDAs. Certain prepetition bilateral secured ISDA agreements and Base Contracts for Sale and Purchase of Natural Gas as published by the North American Energy Standards Board ("NAESB") of Talen Energy Marketing. Obligations under the Prepetition Secured ISDAs were secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Secured Notes. The following series of prepetition senior secured notes issued by Talen Energy Supply, which were guaranteed by the Prepetition Guarantors and secured by a first priority lien on and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors: (i) 7.25% Senior Secured Notes due 2027; (ii) 6.625% Senior Secured Notes due 2028; and (iii) 7.625% Senior Secured Notes due 2028.

Prepetition TLB. The Term Loan Credit Agreement, dated as of July 8, 2019, as subsequently amended, supplemented or otherwise modified, among Talen Energy Supply, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto, which established a senior secured term loan B facility. Obligations under the Prepetition TLB were guaranteed by the Prepetition Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Prepetition Guarantors.

Prepetition Unsecured Notes. The following series of prepetition senior unsecured notes issued by Talen Energy Supply, which were guaranteed by certain Prepetition Guarantors: (i) 4.6% Senior Notes due December 2021; (ii) 9.5% Senior Notes due July 2022; (iii) 6.5% Senior Notes due September 2024; (iv) 6.5% Senior Notes due June 2025; (v) 10.5% Senior Notes due January 2026; (vi) 7.0% Senior Notes due October 2027; and (vii) 6.0% Senior Notes due December 2036.

Price-Anderson Act. A federal law governing liability related issues and ensuring the availability of funds for public liability claims arising from an incident at any United States licensed nuclear facility.

PUCT. Public Utility Commission of Texas, which regulates the Texas electric, telecommunication, water and sewer utilities, implements respective legislation and offers customer assistance in resolving consumer complaints.

PUCT PCM. Performance Credit Mechanism, a market mechanism adopted by the PUCT in 2023.

Puget Sound. Puget Sound Energy Inc., an energy utility company based in the U.S. state of Washington that provides electrical power and natural gas to the Puget Sound region.

RACT. Reasonably Available Control Technology, a pollution control standard.

RCF. The senior secured revolving credit facility that provides aggregate revolving commitments of $700 million, including letter of credit commitments of $475 million, under the Credit Agreement. Obligations under the RCF are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

Reg Rights Holders. Certain designated holders of TEC common stock and warrants to purchase TEC common stock that are party to the Registration Rights Agreement, and other holders of our common stock and warrants from time to time party thereto.

Registration Rights Agreement. The Registration Rights Agreement dated as of May 17, 2023 between TEC and the Reg Rights Holders that, among other things, granted customary registration rights to the Reg Rights Holders and certain of their permitted transferees, including customary shelf registration rights and piggyback rights.

Reliability Must Run. Refers to a generating unit that is slated to be retired by its owners but is needed to be available for reasons of reliability. It is typically requested to remain operational beyond its proposed retirement date until transmission upgrades are completed. These arrangements have been used to keep certain power plants operating past their planned retirement dates in order to prevent reliability problems.

Restructuring. The voluntary cases commenced by the Debtors under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court, together with the related financial restructuring of the Debtors' existing debt, existing equity interests and certain other obligations pursuant to the Plan of Reorganization.

Retail PPA Incentive Equity. The right of Riverstone, pursuant to the Plan of Reorganization and TEC Global Settlement, to receive additional TEC common stock at and after Emergence based on the prices to be paid by Cumulus Data to Talen Generation for electricity generated at Susquehanna under retail electricity supply agreements. At Emergence, TEC issued approximately 243,000 shares of TEC common stock to Riverstone in respect of the Retail PPA Incentive Equity. In addition, the Retail PPA Incentive Equity also included a right of Riverstone to receive additional TEC common stock (or, at TEC's option, a cash payment) in the event Cumulus Data exercised an additional option to purchase power from Talen Generation. In September 2023, Riverstone waived its right to these additional amounts in exchange for a cash payment. See Note 16 in Notes to the Interim Financial Statements and Note 27 in Notes to the Annual Financial Statements for more information.

RGGI. The Regional Greenhouse Gas Initiative, a mandatory market-based program among certain states, including Maryland, New Jersey and Massachusetts, to cap and reduce carbon dioxide emissions from the power sector. RGGI requires certain electric power generators to hold allowances equal to their carbon dioxide emissions over a three-year control period. RGGI allowances, as issued by each participating state, represent an authorization for a power generation facility to emit one short ton of carbon dioxide. Allowances may be acquired by auction or through secondary markets. Pennsylvania has proposed joining this market-based program.

Rights Offering. The equity rights offering conducted in April and May 2023 in accordance with the RSA, resulting in subscriptions to purchase $1.4 billion of TEC common stock pursuant to the Plan of Reorganization.

Riverstone. Riverstone Holdings LLC and certain of its affiliates.

Rosebud Mine. A coal mine in Montana owned by Westmoreland Rosebud Mining, LLC that supplies coal to the Colstrip Units.

RSA. The Restructuring Support Agreement (and all exhibits and schedules thereto), dated as of May 9, 2022, by and between the Debtors, certain holders of claims under the Prepetition Unsecured Notes, Prepetition CAF, Prepetition TLB and Prepetition Secured Notes, Riverstone and TEC, as subsequently amended, supplemented or otherwise modified, and any exhibits or schedules thereto.

RTO. Regional Transmission Organization.

Secured ISDAs. Certain bilateral secured ISDA agreements NAESB agreements of Talen Energy Marketing. Obligations under the Secured ISDAs are secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

Secured Notes. The 8.625% Senior Secured Notes due 2030 issued by Talen Energy Supply. Obligations under the Secured Notes are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

SOFR. Secured Overnight Financing Rate.

Stockholders Agreement. The Stockholders Agreement, dated as of May 17, 2023, between TEC and the holders of TEC common stock at Emergence.

Subsidiary Guarantors. The subsidiaries of TES that guarantee (i) the obligations of TES under the Credit Facilities and the Secured Notes and (ii) the obligations of Talen Energy Marketing under the Secured ISDAs.

Successor. Relates to the financial position or results of operations of Talen Energy Corporation for periods after Emergence, or May 18, 2023.

Susquehanna. A nuclear-powered generation facility located near Berwick, Pennsylvania.

Susquehanna Nuclear. Susquehanna Nuclear, LLC, a direct subsidiary of Talen Energy Supply. Susquehanna Nuclear operates and owns a 90% undivided interest in Susquehanna.

Talen (the "Company," "we," "us," or "our"). (i) for periods after May 17, 2023, Talen Energy Corporation and its consolidated subsidiaries, unless the context clearly indicates otherwise and (ii) for periods on or before May 17, 2023, Talen Energy Supply and its consolidated subsidiaries, unless the context clearly indicates otherwise.

Talen Energy Corporation or "TEC". Talen Energy Corporation, the parent company of Talen Energy Supply, and its consolidated subsidiaries.

Talen Energy Marketing. Talen Energy Marketing, LLC, a direct subsidiary of Talen Energy Supply that provides energy management services to Talen-owned and operated generation facilities and engages in wholesale commodity marketing activities.

Talen Energy Supply or "TES". Talen Energy Supply, LLC, a direct subsidiary of Talen Energy Corporation and the parent company of Talen Generation, Susquehanna Nuclear, Talen Montana Holdings, LLC, Talen Energy Marketing, Talen Texas, Talen NE, and Cumulus Growth.

Talen Formation Transactions. The 2015 spin-off of Talen Energy Corporation from PPL and, simultaneously, the contribution of certain entities by Riverstone creating, at that time, an independent, publicly traded company.

Talen Generation. Talen Generation, LLC, a direct subsidiary of Talen Energy Supply that, through its subsidiaries, owns and operates generation facilities, and holds interests in other jointly owned, third-party operated generation facilities, in Pennsylvania, New Jersey and Maryland.

Talen Growth. Talen II Growth Holdings LLC, an indirect subsidiary of Talen Energy Supply that was merged into TES in September 2023. Talen Growth owned common equity interests in Cumulus Digital Holdings. Talen Growth, through subsidiaries, previously owned other interests in proposed digital infrastructure, renewable energy and battery storage projects but sold its interests in the proposed projects to subsidiaries of Cumulus Growth in September 2021.

Talen Montana. Talen Montana, LLC, a direct subsidiary of Talen Montana Holdings, LLC that operates the Colstrip Units and owns an undivided interest in Colstrip Unit 3 and is party to a contractual economic sharing agreement for Colstrip Units 3 and 4.

Talen NE. Talen NE LLC, a direct subsidiary of Talen Energy Supply that, through subsidiaries, owns and operates a generation facility in Massachusetts.

Talen Texas. Talen Texas, LLC, a direct subsidiary of Talen Energy Supply that, through its subsidiaries, owns and operates generation facilities in Texas.

TEC Global Settlement. The settlement of all claims, interests and controversies among the Debtors, Riverstone, TEC and certain other creditors in the Restructuring, the terms of which are set out in the fifth amendment to the RSA and the attachments thereto.

TeraWulf. TeraWulf (Thales) LLC, a Beowulf Energy LLC subsidiary and an unaffiliated third party.

Term Loans. Collectively, the TLB and the TLC.

TERP. The Talen Energy Retirement Plan, which is Talen's principal defined-benefit pension plan.

TLB. The senior secured term loan B facility in an aggregate principal amount of $580 million (and subsequently increased to $870 million in August 2023) under the Credit Agreement. Obligations under the TLB are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

TLC. The senior secured term loan C facility in an aggregate principal amount of $470 million under the Credit Agreement, the proceeds of which are available to support the issuance of standby and trade LCs under the TLC LCF via 100% cash collateralization. Obligations under the TLC are guaranteed by the Subsidiary Guarantors and secured by a first priority lien and security interest in substantially all of the assets of Talen Energy Supply and the Subsidiary Guarantors.

TLC LCF. The $470 term letter of credit facility established under the Credit Agreement. The TLC LCF is cash collateralized with the proceeds of the TLC, and commitments thereunder are reduced to the extent that borrowings under the TLC are prepaid.

TRF. Talen Receivables Funding, LLC, a direct subsidiary of Talen Energy Marketing that, prior to the Restructuring, purchased certain receivables from Talen Energy Marketing and sold them to an unaffiliated financial institution. That agreement was terminated during the second quarter 2022 as a result of the Restructuring. In November 2023, TRF was merged with and into Talen Energy Marketing.

VIE. Variable interest entity.

WECC. The Western Electricity Coordinating Council, a not-for-profit entity that ensures the reliability of the electricity transmission network and energy market in all or parts of Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, South Dakota, Texas, Utah, Washington, the Canadian provinces of Alberta and British Columbia and the northern portion of the Mexican state of Baja California.

Winter Storm Elliott. An extra-tropical cyclone that occurred in December 2022 that created a storm of snow, rain and wind across the country. The winter cyclone had widespread impacts across the United States and caused PJM to declare a Maximum Generation Emergency Action.

Winter Storm Uri. A major winter and ice storm occurring in February 2021 that had widespread impacts across the United States, including systemic energy market disruptions and price volatility throughout ERCOT.

TALEN ENERGY™